SPEECHES

OF

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PREFACE

The following collection of speeches by the Finance Minister of the Indian Union, Shri T. T. Krishnamachari, has been chosen for the light they throw on general government policy in economic matters, problems connected with the Second Five Year Plan, particularly as regards financing the Plan, the objectives and structure of taxation, and the problem of foreign exchange. The speeches were made in Parliament during the discussions on the Union Budget for 1957-58. Some of them have been reproduced only in part in order to focus attention on specific issues of policy. The speeches have been arranged in chronological order. The appendix contains the annual speech to the Associated Chambers of Commerce in December 1956 giving a general review of economic policy, as well as two speeches made in Parliament in September 1956 on the Second Five Year Plan.

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I

THE UNION BUDGET FOR 1957-58

Sir, in March last, I presented to the predecessor of this House an interim budget for the year 1957-58 in order to obtain a vote on account to meet the Government's expenditure until the new Parliament assembled. The expenditure estimates I am presenting today are more or less the same as the ones I presented in March. They have, however, been reclassified in terms of the reorganised Ministries, and there are a few new items to which I shall refer in the course of my speech.

A White Paper reviewing the major economic developments in the economy during 1956 and outlining the perspective against which policies for the current year have to be formulated was circulated along with the Budget papers in March last. The broad analysis of economic trends given in the White Paper needs little modification in the light of subsequent data. I shall, however, review briefly the latest available economic indicators and attempt an assessment of emergent and prospective trends.

Before I do so, I would say that the economic classification of the budget, as it is now being presented, will be issued in two or three days' time. We attempted this reclassification for the first time in March last, and we propose to continue the practice. But, the document will have to be released after the short time-interval needed for working into tables the proposals I am now placing before the House today.

The White Paper of March last gave an analysis of the factors responsible for the upward pressure on prices during 1956. In recent months, the index of wholesale prices has remained stable around 420. For the week ending April 27, it was 423·5, which is a rise of 8·5 per cent over the level a year ago. Rice prices are now at 633 and wheat prices at 581; they are 14·1 per cent and 16·4 per-cent respectively, above the level that obtained a year ago. Prices of industrial raw materials have risen by 9 per cent during the year, of semi-manufactures by 5·3 per cent and of manufactures by 2·4 per cent. The rising price trend is due in part to the insufficiency of food production in relation to the demand, and in part it is attributable to certain external factors. There are, however, clear signs of demands in the economy tending to outstrip the supplies available. If unchecked, these trends cannot but get reflected in

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The Budget was presented to the Lok Sabha on May 15, 1957.

further increases in the cost of living and in the cost structure of industries.

Production

The latest available estimates of agricultural production indicate that the fall in production in 1955-56 was somewhat smaller than had been estimated earlier. The output of rice is now estimated at 26·8 million tons as compared to the earlier estimate of 25·5 million tons, and the estimate for the total foodgrains output for the year has now been revised upwards from 63·4 million tons to 64·8 million tons. Even so, the year shows a shortfall of some 4 million tons as compared to 1953-54 and some 2 million tons as compared to 1954-55. The decline in foodgrains output in 1955-56 was mainly in respect of coarse grains, while the output of rice was higher and that of wheat only slightly lower than in the previous year.

The output of commercial crops shows no significant change relatively to the estimates given in the White Paper issued in March. The overall index of agricultural production, taking food crops and commercial crops together, would still show a fall of about 2 per cent in 1955-56 as compared to 1954-55.

The estimates of the likely level of agricultural production in 1956-57 indicate that the outturn should, on the whole, be somewhat better than the previous year's. The production of rice is expected to be around 28 million tons, that is, about 1·2 million tons better than in 1955-56, and of wheat about 8·6 million tons as compared to 8·3 million tons in 1955-56. The output of coarse grains and pulses is estimated at about the same level as in 1955-56. Among commercial crops, latest reports indicate that the production of cotton increased by 20 per cent., groundnut by 6 per cent. and sugarcane by about 17 per cent. Nevertheless, reports on the food situation in recent weeks indicate difficult conditions in some of the States. I would not like to minimise the gravity of the situation as it obtains in these pockets. But statistically, it does seem that if at all there is an overall shortage, it is of a marginal character. With the arrangements that have been made for the import of foodgrains from abroad to meet our normal needs and with the availability of additional supplies under the P.L. 480 agreement, it should be possible to ensure adequate supplies to enable us to hold the price line. I would, however, concede that the situation will need careful watching and the apparatus necessary to deal with the situation as it develops from time to time would have to be kept in readiness.

Industrial production has continued to rise at an annual rate of about 8 per cent, the newer industries, both in the capital goods and in the consumer goods sector, advancing more rapidly than the older industries. The pace at which industrial development has been proceeding is encouraging. In that process, it generates heavy demands on our foreign exchange resources for import of capital goods as well as raw materials. The immediate difficulties in respect of foreign exchange notwithstanding, it would be reasonable to hope that the rate of progress in the industrial sector will be maintained.

The overall position that emerges from the review of production trends so far is that the supply of domestic goods and services has, on the whole, shown only a modest improvement over the previous year, and that the rise in prices during the year reflects the pressure of a shortage in supplies relatively to the strength of the expansionary factors in the economy generated by the rising levels of both public and private investment.

Considered by itself, the increase in money supply over the last 12 months or so is not very large. Between the 13th of April 1956 and the 12th of April this year, it increased by about Rs. 132 crores. This increase, it must however be remembered, occurred in spite of the large balance of payments deficit which resulted in a precipitous fall in the Reserve Bank's foreign exchange holdings. The increase in rupee securities held by the Reserve Bank works out at Rs. 273 crores over the past twelve months. This is, clearly, an expansionary factor which reflects, in the main, the growing borrowings of the Government from the Reserve Bank; in part, it arises from the pressure on commercial banks to replenish their resources by selling securities. Scheduled bank lending to the private sector was up by Rs. 147 crores during the year. The liquidity of the banks has in the process been strained and money rates have hardened. Stringency in the money market has continued. This stringency is a usual accompaniment of a phase of economic boom when investment tends to outrun savings; it is not an indication of an insufficiency of the monetary media. An abatement of monetary stringency has at this stage to be sought not through a general increase in the supply of credit but through measures to prevent an excessive diversion of credit to less essential uses and through the creation of special institutions or facilities for supplying selectively the type of credit needed for priority developments.

Foreign Exchange

The major problem before the country is the large and continuing strain on foreign exchange resources. Since the beginning

of the fiscal year, 1956-57 there has been a persistent pressure on the balance of payments, resulting in a draft on the country's foreign exchange resources of about Rs. 300 crores. Since, during this period, a credit of Rs. 60·7 crores was obtained from the International Monetary Fund, the fall in the Reserve Bank's holdings amounted to about Rs. 240 crores.

The balance of payments for the first quarter of 1956-57 showed a current account deficit of Rs. 44·5 crores; the deficit widened to Rs. 81·4 crores in the second quarter. For the third quarter for which data are now available, there was a further increase in the deficit which worked out at Rs. 84·8 crores. Excluding 'official donations' which enter into the current account, the deficits for the three quarters were Rs. 54·1 crores, Rs. 89·9 crores and Rs. 92.4 crores. Since January, 1957, further foreign exchange resources of the order of Rs. 86 crores have been used up. The foreign assets of the Reserve Bank now stand a little below Rs. 500 crores. Despite the measures already taken to restrict imports, there is no indication yet of an abatement in the rate of drawals which averages Rs. 5 to 6 crores a week. This embarrassing 'lag' notwithstanding, the steps we have already taken and the further steps we shall take as necessary will, it is believed, begin to produce their effect before long.

On rough estimate, imports for the year 1956-57 will aggregate to over Rs. 1000 crores, while exports will be around Rs. 650 crores. The bulk of the additional imports received during the year is for developmental purposes and should help strengthen the economy in due course. It is, however, obvious that foreign exchange expenditure has to be limited to the availability of resources; and the present imbalance in the country's external account rectified. The various corrective measures adopted during the year were reviewed in the March White Paper; further action in the same direction which is necessary will, as I have just said, be taken.

There is hardly any cushion left in our foreign exchange reserves to permit a further significant draft on them. The level of imports hereafter has necessarily to be regulated in the light of our current earnings and the inflow of supplemental resources we can secure from abroad and should be closely related to essential requirements of the high priority projects in the Plan. The import policy for the second half of 1957-58 is being formulated with the objective of securing a further sizeable saving on imports. The large volume of imports of capital goods and of developmental commodities that has already come in should make it possible for investment within the economy to go forward for a time at a

satisfactory rate and care will be taken to allow such imports as are necessary for getting the benefit of whatever equipment has been obtained and for maintaining production at a reasonable level. It would, however, be idle to pretend that all hardship can be avoided. The exigencies of the situation require that a balance on external account must be restored as early as possible, and the necessary price has to be paid.

An improvement in the balance of payments situation is, I should add, largely conditional upon the adoption of domestic policies designed to hold inflationary pressures in check. An excess of purchasing power within the economy raises internal prices; it also reduces the availability of supplies for export and pushes up the demand for imports. It is, therefore, necessary to orientate fiscal and monetary policies to the keeping down of domestic consumption and to the diversion of a part of the domestic output to export markets. I may mention in this connection that the exports of cotton textiles in the first three months of 1957 have reached a total of 260 million yards, which gives an annual rate of over 1000 million yards. The increase in excise duty on cloth in September last has it seems succeeded in one of its objectives without raising prices in the process. We should constantly be on the watch for similar opportunities to enlarge our foreign exchange earnings.

After this broad review of the latest economic trends, I should now like to give an account of the budget estimates for 1957-58.

In the estimates presented on the 19th of March 1957, revenue was taken at Rs. 636·2 crores and expenditure at Rs. 663·09 crores, leaving a deficit, on revenue account, of Rs. 26·87 crores. As a result of certain modifications which have since been found to be necessary, revenue deficit, on the basis of existing taxation, is now estimated to increase by Rs. 6·25 crores. This is as a result of a reduction of Rs. 1·25 crores in the net contribution of the Posts and Telegraphs Department to General Revenues and an increase in expenditure of Rs. 5 crores.

The reduction in the Posts and Telegraphs contribution is due to an additional provision of Rs. 1·25 crores for the Renewals Reserve Fund. A broad examination has revealed that the provision made in recent years for depreciation and replacement of assets has been very inadequate and that at least 2·75 per cent of the capital at charge should be provided as a depreciation reserve. Provision made this year amounts to Rs. 1·25 crores which represents only 1·25 per cent on the capital at charge of about Rs. 100

crores. Pending a detailed examination, the provision is now being doubled for the current year.

The increase in expenditure is accounted for by three items. The first is a provision of Rs. 3·12 crores for grants to the Khadi and Village Industries Commission for development of Ambar Charkha. A programme for the introduction of 75,000 Ambar Charkhas was started last year. The results of this programme have been reviewed recently and it has been decided to continue and expand it further during 1957-58. For the present, the expanded programme provides for the introduction of an additional 90,000 Ambar Charkhas. The total cost of this programme during the current year is estimated at Rs. 10·09 crores, of which Rs. 3·12 crores will be by way of grants and the balance by way of loans to the Commission.

The second item is a grant of Rs. 1·55 crores to the Government of Assam towards the extra expenditure which it has had to incur recently for the maintenance of law and order as a result of the disturbances in certain border areas. The State Government has had to incur large expenditure on providing relief to the affected population, borrowing police forces from other States and constructing roads and bridges to facilitate communications. This abnormal expenditure has caused a great strain on the State's resources and the Government of India has agreed to meet 50 per cent of the cost of relief measures and of roads and bridges and the entire expenditure on the police borrowed from other States.

The last item is a provision of Rs. 33 lakhs for incidental expenditure on transport, etc., in connection with the return of Lend-Lease silver to the Government of the U.S.A. During the last War, the U.S. Government leased 226 million fine ounces of silver to the Government of India to be returned five years after the termination of the emergency. The liability for the return of this silver was divided between India and Pakistan, India's share being approximately 172 million fine ounces. It has now been agreed that the Government of India would make immediate arrangements for the shipment of 50 million fine ounces of silver and that the balance of 122 million fine ounces should be made available in the form of quaternary alloy coins. The cost of shipment of fine silver would be borne by the Government of India while, alloy silver would be delivered in India and the U. S. Government would meet all cost of handling, transport and refining and also retain the metals recovered in the refining process.

On the capital account, the estimates presented in March last provided for an outgo of Rs. 772·21 crores for capital expenditure

and loans to State Governments and others. As stated earlier, an addition of Rs. 6·97 crores is now required for loans to the Khadi and Village Industries Commission for the Ambar Charkha programme.

A provision of Rs. 15 crores is being made for loans to the Refinance Corporation which is proposed to be constituted shortly. The Agricultural Commodities Agreement between the Government of India and the U. S. A. under American Public Law 480 provided among other things, that a sum of about Rs. 26 crores would be reserved for re-lending to private enterprise in India through established banking facilities. As a result of subsequent discussions with the U.S.A. authorities, a scheme has been evolved for channelling these funds through a Refinance Corporation, which will provide re-lending facilities against loans given by Indian banks. The Corporation is proposed to be constituted as a joint stock company under the Companies Act, 1956, initially with an ordinary share capital of Rs. 12·5 crores to be subscribed by the Reserve Bank of India, the State Bank of India, the Life Insurance Corporation of India and about 14 from among the larger scheduled banks in India. It is anticipated that the Corporation will require loans from the Government of India out of the earmarked funds relating to the P. L. 480 Agreement, to the extent of about Rs. 15 crores during the current financial year.

Another provision of Rs. 50 lakhs is being made for investment in the share capital of the Export Risk Insurance Corporation. The Corporation will be registered under the Indian Companies Act as a private limited company with an authorised capital of Rs. 2·5 crores and a paid-up capital of Rs. 50 lakhs. The maximum risks which the Corporation should carry will be 10 times the subscribed capital and the reserves built by it. In setting up the Corporation to introduce a scheme of export risk insurance in India, the Government of India have been actuated by the desire to place the Indian exporter on even terms with exporters of other countries who are aided by similar schemes in their own countries.

These three items on Capital account will aggregate to Rs. 22·47 crores. Against this, Capital receipts are now expected to improve by Rs. 25·83 crores. Of this increase, Rs. 9·56 crores represent the additional contribution to the Railway Development Fund which has been announced in the Railway Budget presented on the 14th of May 1957 and Rs. 1·27 crores the additional contribution (inclusive of interest) to the Posts and Telegraphs Renewals Reserve Fund mentioned earlier. The balance of Rs. 15 crores is on account of assistance under the Agricultural Commodities Agreement with the

U.S.A. which is now estimated at Rs. 65 crores against the credit of Rs. 50 crores assumed earlier, the total foreign aid thus amounting to Rs. 150 crores. In the result, there will be a net receipt of Rs. 3·36 crores on Capital account.

Taking the Revenue and Capital accounts together, the overall deficit of Rs. 365 crores estimated earlier will now increase by Rs. 2·89 crores to Rs. 367·89 crores.

The review of economic conditions and of the financial position as it emerges for the budget year shows clearly that while more resources are required for meeting the increasing demands of the investment programme, both public and private, the economy is not generating the necessary savings. Budgetary deficits, rapid expansion of bank credit, continued pressure on prices and a large balance of payments deficit—these taken together connote a deficiency of voluntary savings relatively to the size of the investments being undertaken. Further, the emerging pressures have to be judged in relation to the requirements over the entire Plan period. Expenditure on the Plan has inevitably to be stepped up year by year, and the strain on the country's resources will grow in the period that must elapse before the investments being made come to fruition. These demands on the economy can be met successfully only by sustained effort at increasing productivity and mobilising savings on a national scale. Simultaneously, it is essential that the pace of investment, both in the public and private sectors, is kept in reasonable relationship to the progress made in enlarging domestic savings and securing an inflow of external finance adequate to meet the foreign exchange requirements of the programmes in hand. This is the setting against which the policies and proposals that I propose to place before the House have to be judged.

Credit Policy

The first item of policy I wish to consider is credit policy. I referred earlier to the expansion of bank credit that has taken place over the last twelve months and the consequent strain this has imposed on the liquidity of the banking system. In the last few years the tempo of investment activity in the private sector has been steadily rising, and more recently there is evidence of a marked quickening of this tempo. This has entailed larger demands on the banking system by trade and industry. The credit advanced by scheduled banks rose during the year 1956 by Rs. 153 crores to a record level of Rs. 788 crores, and in the first four months of this year, it has risen by another Rs. 119 crores. The deposit resources

of banks have not gone up to a corresponding extent. As a result, there has been an acute stringency of funds in the money market and an appreciable increase in the call money rate and the lending and deposit rates of banks. Considering the overall trends in the economy, the remedy for a situation of this nature is not an outright increase in the supply of money and credit to the extent of the demand but a cautious and orderly expansion to meet genuine needs, accompanied by measures to prevent an excessive diversion of credit to less essential uses.

Against this background, the Reserve Bank has been pursuing a policy designed to moderate the inflationary possibilities of a large credit increase through general and selective credit restraint—without at the same time denying credit to essential lines of activity. This policy of judicious restraint took the form of an increase in the bank's lending rates; the rate on advances under the bill market scheme was raised in two stages in March and November, 1956 from 3 to 3-1/2 per cent and in February this year by an enhancement of the stamp duty on usance bills which increased the effective rate of borrowing by banks to 4 per cent. Simultaneously, the bank increased its rate on advances against Government securities to 4 per cent. In addition, as it appeared that speculative trading, particularly in essential commodities in short supplies like foodgrains, absorbed some portion of bank credit, the Reserve Bank issued directives with a view to regulating advances against such commodities.

These measures have generally been effective. In the busy season now coming to a close, credit extended has been of a somewhat smaller order than in the last busy season. The technique of selective control has had some effect on the level of bank credit; it has restrained the rise in prices in the sectors to which it was directed and has helped in channelling resources to more desirable outlets. It must be emphasised that the Reserve Bank's policy has not been one of mere restriction of overall credit; in fact, it has been one of ensuring controlled expansion—a process which has been helped in particular by the liberalisation of the bank's credit facilities under the bill market scheme and also through its open market policy. The expanded facilities under the bill market scheme could be availed of by banks on a larger scale by a greater accretion to their deposit resources. Some progress has been achieved in this respect, but I feel that a greater effort on the part of the banks to attract resources especially by reaching classes which have not yet developed the banking habit is called for.

In view of the increasing tempo of developmental activity programmes for the current year and in the succeeding years, I am convinced that credit policy should continue to be directed towards moderating the pressure of demand for funds without at the same time hampering essential lines of productive activity. It is in this context that the Reserve Bank has been continuously keeping its bank rate under review. Earlier today, the bank announced an increase in the bank rate from 3½ to 4 per cent. As the effective lending rate of the Reserve Bank to scheduled banks has been 4 per cent for some months now and the markets have had sufficient time to adjust themselves to this rate, this seems an opportune moment for rationalising the lending rate structure of the Reserve Bank by raising the bank rate itself. There are other considerations also which indicate the desirability of making this adjustment in the bank rate at this stage. I am not unaware of the limitations of the bank rate as an effective weapon in a developing economy. Nevertheless, an increase in the bank rate should assist the Reserve Bank in its task of moderating the pressure of demand for credit. While the Bank's latest decision might appear to be only a formal recognition of a *de facto* situation, it is an action in keeping with the analysis of the economic situation I have presented today to curb the inflationary potential in the economy. In view of the increase in the bank rate, there is no longer the need to keep the stamp duty on usance bills at existing levels, and I am therefore reducing it with immediate effect to 50 naye paise per Rs. 1,000 for three months.

I may mention once again, in this context, the steps we are taking to set up a Refinance Corporation to cater to medium-term needs of industry. This Corporation will in time, I hope, fill a lacuna in our existing system of industrial financing. This is an instance of the positive aspects of the policy of controlled expansion which I mentioned a little while ago.

This brings me to my next point, which relates to small savings. In the ultimate analysis, the limit to expansion in the economy is set by the availability of savings, and in a country like ours where the banking habit is undeveloped, small savings have a special role to fill. Taking the first Plan period as a whole, the progress of the small savings movement has been encouraging. The target for the Second Plan requires a substantial stepping up of collections year by year and I am anxious to ensure a sufficient incentive for the investor in small savings in all forms. The small savings movement is to my mind more than a way of collecting money; it is a scheme for spreading the habit of thrift and of encouraging

participation by the common man in the Plan effort. I wish to take the opportunity to appeal to every family whether in the urban or rural areas to save more and make the small savings movement a success.

While the campaign for small savings has to be intensified, I propose also to increase the rate of interest on small savings investments with effect from the 1st of June, 1957. Briefly, I have decided to increase the rate of interest on Post Office Savings Bank accounts by 1/2 per cent and to have a new series of 12 years certificates to be called National Plan Savings Certificates in replacement of the present National Savings Certificates and National Plan Certificates. The interest on Savings Bank accounts will now be 2-1/2 per cent on balances up to Rs. 10,000 and 2 per cent on balances in excess up to Rs. 15,000 in the case of individuals and 2 per cent on balances in the public accounts. There will be only two types of savings certificates hereafter: (i) the National Plan Savings Certificate with a maturity of 12 years and (ii) the Treasury Savings Deposit Certificate with a maturity of 10 years. The yield on both these will be increased; for the former to 4.25 per cent compound interest at the end of 12 years and for the latter to 4 per cent at the end of 10 years. Both these certificates will be tax-exempt. For people who hold these certificates for periods less than 12 years, the yield will be suitably adjusted. For example, Rs. 127 at the end of 7 years, Rs. 148 at the end of 10 years and Rs. 165 at the end of 12 years. In the case of the Treasury Savings Deposit Certificates, interest at the rate mentioned is paid every year but an adjustment is made in the event of the holder deciding to encash it before maturity. In the case of National Plan Savings Certificates, the period of non-cashability will be fixed at 12 months. The further issue of National Plan Certificates and 7-Year National Savings Certificates will be discontinued.

Foreign Exchange Policy

Fiscal and monetary policy at this juncture has to be designed in a way that will make it clear beyond doubt that we, on our part, are determined to do our best to implement the Plan as fully as possible. We have to make the fullest effort to raise the domestic resources required and I shall come presently to my tax proposals which reflect this determination. It is clear, however, that the problem is not merely one of raising more domestic resources but also of finding ways and means, firstly, to conserve and, secondly, to augment our foreign exchange resources in keeping with the large requirements of the Plan. The steps we are taking in the field of domestic economic policy will, it is hoped, react beneficially on our

foreign exchange position as well, but this latter is, admittedly, a more difficult problem. What we can earn by way of foreign exchange on our exports is not a matter entirely in our hands; it depends on the trend of world prices and demands. Similarly, the prices we have to pay for our imports are beyond our control and all that we can do is to limit the volume of our imports. Here again, there are problems. The cuts we impose on imports become effective only after a time lag. Moreover, a developing economy needs increasing imports and there is danger, in a restrictive import policy, of impeding the flow of imports needed for the very purpose of development. Foreign exchange policy is thus a matter of delicate balancing and it is a balancing, if I may say so, in which a favourable turn of the wind could make a material difference.

In the March White Paper, the various measures taken to save and conserve foreign exchange have been listed. The import programme for the first half of this year involved considerable cuts in imports, and the process will, I am afraid, have to be carried considerably farther in the import programme for the second half of the year. The Government have already announced their policy in regard to licensing of capital goods imports. Private investors are being encouraged to seek medium-term credits from abroad and to invite foreign enterprise to associate itself increasingly with Indian enterprise. We have before us a rather difficult period and we will have to exercise the utmost caution and vigilance in the matter of imports while taking every possible step to increase our export earnings. The fact that in the last twelve months the level of imports has been exceptionally high warrants the presumption that the economy can put up with sizeable import cuts for some time to come without serious dislocation. At any rate, I wish to reiterate the Government's determination to restore a position of better balance in external account as early as possible.

An under-developed economy which launches upon a programme of industrialisation suffers from the inevitable handicap of having to import from abroad, all or practically all, of the equipment and capital goods that it needs to make the right start. Nevertheless, a start has to be made and in the process risks have to be undertaken. In the nature of things it is not possible to chalk out the course of policy and action in the field of foreign exchange with the same precision or detail as in the case of domestic policy. The Second Five-Year Plan involves heavy foreign exchange expenditure and the estimated gap in the balance of payments has widened partly because in some respects the initial estimates were on the low side and partly because of the rise in prices abroad. This gap is by no means easy to fill. We shall have to make our best effort

along the lines I have mentioned. At the same time, we must recognise that external resources on a considerable scale will be necessary in order to enable us to see through the developmental tasks we have taken in hand. Given reasonable effort all along the line on our part, we shall, I am confident, get over the transitional difficulties that are confronting us at present.

THE PLAN

The estimates of required outlay have gone up since the Plan was formulated. The fulfilment of the Plan to schedule postulates, *inter alia,* the availability of external resources on a considerable scale, and the need for these resources is the greatest in the earlier part of the Plan. Evidently, shortfalls in this respect cannot be made good by a draft on domestic resources. We have this aspect of the problem under continuous review. It is not possible to say at this stage to what extent the progress of the Plan will be affected because of foreign exchange shortage. The core of the Plan is steel, coal, transport and ancillary power. With the external assistance that has been already promised and with further support from the International Bank and other sources, we shall, I think, be able to carry through the projects in this "core". This group of programmes has the highest priority in view of its bearing on further development. But, in regard to other projects, especially those for which no external resources are specifically forthcoming, and which are not otherwise of high priority, it would be prudent for us not to make fresh commitments for some time until the outlook becomes clearer and we have more assurance of our being able to find the foreign exchange resources needed for them. Some rephasing of the Plan is thus inevitable, but if, as I hope, the balance of payments situation takes a turn for the better before long and if we succeed in securing adequate external resources, the achievement on the Plan should not fall much behind schedule.

Even if the Plan did not encounter difficulties in certain sectors—which it does—a rephasing of it might be necessary in certain parts. The rapid development of the country in the last few years has made it incumbent on our part to give closer attention to the socio-economic objectives of the Plan. The Plan has set before itself the objective of increasing national income progressively over a period of 15 to 20 years. The urgency of development is related to the need for raising living standards all round and for creating an environment in which democratic values and ways of life take root and gather strength. To those who regard the Plan as too ambitious, I would respectfully submit that they should take a good look at the living conditions of the bulk of our

people. If they would only do this, I am sure they will, along with me, be able to see the several directions in which the Plan is inadequate. In the last few years there has been some visible improvement in the standards of nutrition and probably of clothing. The housing conditions and environmental hygiene in urban and rural areas of the low-income groups are deplorable; the slums in our cities are a disgrace to any society which claims to be considered civilised. I am deeply anxious to see that the Plan is strengthened in this respect.

Let us not forget that the very fact that a measure of success has been achieved already in raising living standards makes it all the more urgent that the process be carried forward with vigour and determination. The millions in India have woken up to new desires and new wants for the first time in many generations. With knowledge that a better future for all is possible has come the aspiration that the desired improvements should take place without delay. Whether it is demand of industrial labour for higher wages and better housing conditions, or of low-paid teachers and government employees for a fair deal and greater security—all these are but manifestations of the new awakening and of the new striving for an economic future which is consistent with the dignity of the citizens of a free society. One cannot merely shrug one's shoulders in the midst of such a situation and say that all these things must wait till somehow or other the financial situation of the country improves. Whatever the difficulties of the moment, the demands of the people—especially of the low-income groups—must be assessed carefully and met to the maximum possible extent. Admittedly, there has to be some order of priorities in dealing with the legitimate but innumerable claims of the people. Even among the less fortunate sections of society, there are at present wide disparities in income and it is essential that the needs of some should take precedence over those of others. The employees of State Governments and local bodies, for example, who are also doing great national service, enjoy conditions of service which are less favourable than those for Central Government employees. I would humbly venture the claim that the Central Government have taken a lead recently in bettering the conditions of these people; but in view of the somewhat strained finances of many States, we have not been able to make much headway. The point remains that in attempting to improve the living conditions of the people, every care has to be taken to make a beginning where it is most needed. I am also aware that the claims of investment should not go overboard in attempting a speedy improvement in living conditions. But

when all concessions to reality are made, the fact remains that to pronounce that our present Plan is too ambitious would be a declaration of defeat in advance. The tasks we have in hand are worthwhile. Their successful completion will make a significant contribution to further development. There should be no stinting of effort or sacrifice in the furtherance of these tasks.

The Plan is the main theme and the dominant concern of all our thinking and policy-formulation. It could not be otherwise in a country which accepts development as its topmost priority. The Plan has run into difficulties, but I see no warrant for alarm or panic. What is required is preparedness to make the necessary sacrifices, and courage and resourcefulness in handling the problems that arise in the course of its implementation.

Taxation Policy

This brings me to the most crucial aspect of economic policy, *viz.*, taxation. I should like first to enumerate briefly the objectives of our taxation policy before I come to taxation proposals for the year. Taxation policy and proposals at this juncture have to be shaped in the light of the following criteria:—

(a) They must produce a sizeable addition to public revenues.

(b) They must provide incentives for larger earnings and more savings;

(c) They must restrain consumption over a fairly wide field so as to keep in check domestic inflationary pressures and to release the resources required for investment; and

(d) They must initiate such changes in the tax structure as would make tax yields progressively more responsive to increased incomes and facilitate an orderly development of the economy with due regard to the social objectives we have adopted.

As I stated in my Budget speech in March last, the overall budgetary deficit of Rs. 365 crores which I left uncovered then is too large in the context of the present economic situation. The changes which I am now incorporating in this Budget leave this initial deficit practically unchanged; and I think it is vital for us to find ways and means of bringing down this deficit significantly. The other criteria of policy which I have just mentioned need hardly be elaborated but their application, I hope, will be clear as I proceed with the elucidation of my tax proposals for the year.

Indirect Taxation

I might begin first with my proposals in the field of indirect taxation. Taking Customs first, it will be appreciated that the

scope for raising additional revenues from them is limited. Hon. Members are aware of the severe restrictions we have imposed on imports in order to curtail our foreign exchange expenditure. Moreover, import duties on most of the so-called luxury articles are already fairly high and the duties on capital goods and industrial raw materials have necessarily to be kept as low as possible. The proposals I have made envisage the raising of the rates of duty by small amounts on about 90 items. I have also taken this opportunity to rationalise the rates in the Customs Tariff which run into several hundred items. There is considerable diversity in these rates which is of no real significance and is in fact administratively cumbrous. I have tried to give the tariff rates a simple form and in this process the surcharges have been merged into the basic rates. I have also availed myself of this opportunity to convert the rates of duty both in the import and the export tariff in terms of decimal coinage. No other change is being made in the export duties. Altogether, my proposals in respect of import duties will yield a revenue of about Rs. 6 crores spread over a large number of items, too numerous to be mentioned here.

Excise Duties: I now come to Union Excise Duties. I may say at once that I have fairly substantial proposals under this head, and in doing so, I have in mind the double objective of restraining consumption and of giving a fillip to exports. I propose the following increases:—

(i) **Motor spirit**: The existing excise duty which works out at 98 N.P. per Imperial Gallon inclusive of surcharge be raised to 125 N. P. per Imperial Gallon. This will yield an additional revenue of Rs. 6.65 crores in a full year.

(ii) **Refined diesel oil:** The existing duty of 25 N. P. per I. G. be raised to 40 N.P. per I.G. This is estimated to yield Rs. 1.90 crores in a full year.

(iii) **Diesel oil, not otherwise specified:** The duty be raised from Rs. 30 per ton to Rs. 40 per ton, the additional yield from which over a year is estimated at Rs. 35 lakhs.

(iv) **Kerosene**: The existing duty of 18.75 N. P. per I. G. be increased fractionally to 20 N. P. per I. G. This will yield Rs. 20 lakhs in a full year.

(v) **Cement**: The existing duty of Rs. 5 per ton be raised to Rs. 20 per ton, the estimated annual yield being Rs. 6.7 crores.

(vi) **Steel ingots:** The existing duty of Rs. 4 per ton be raised to Rs. 40 per ton, which will yield on an annual basis Rs. 5·7 crores.

(vii) **Sugar:** The existing duty of Rs. 5·62 per cwt. be raised to Rs. 11·25 per cwt. This will yield Rs. 18·55 crores in a full year.

(viii) **Vegetable non-essential oils:** The duty of Rs. 70 per ton be raised to Rs. 112 per ton. This will mean an increase from about 3 N. P. to 5 N. P. per lb. The estimated yield on this account is Rs. 3·15 crores in a year.

(ix) **Tea:** The duty be raised as follows:—

(a) loose tea—from 6·25 N.P. per lb. to 10 N.P. per lb. of tea;

(b) package tea converted from duty-paid loose — from 18·75 N.P. per lb. to 35 N.P. per lb.

(c) package tea—from 25 N.P. per lb. to 45 N.P. per lb.

This will yield an additional revenue of Rs. 2·45 crores in a year.

(x) **Coffee:** The existing duty be raised from 18·75 N.P. per lb. to 35 N. P. per lb., the estimated additional yield being Rs. 80 lakhs.

(xi) **Unmanufactured tobacco:** The duty be raised as under:—

(a) if other than flue-cured and used for the manufacture of cigarettes or smoking mixtures for pipes and cigarettes — from 56 N.P. per lb. to 75 N.P. per lb.

(b) if not flue-cured and not actually used for the manufacture of cigarettes or smoking mixtures for pipes and cigarettes, and such tobacco cured in whole leaf form and packed or tied in bundles, hanks or bunches or in the form of twists or coils — from 37 N.P. per lb. to 50 N. P. per lb.

(c) if other than flue-cured and not otherwise specified — from 87 N.P. per lb. to 100 N.P. per lb.

The additional yield from these increases aggregate Rs. 6·15 crores in a full year.

(xii) **Matches:** The existing duties be raised so as to permit of sale of match boxes at 6 N.P. and 4 N.P. per match box of 60's and 40's respectively. The gain to revenues in a full year by these increases is estimated at Rs. 6·2 crores.

(xiii) **Paper:** My proposals involve an increase in the existing duty on various types of paper, the aggregate additional yield being estimated at Rs. 2 crores on an annual basis.

These proposals in respect of Central Excise Duties are estimated to yield Rs. 60·80 crores in a full year. For the remaining part of the current year, their yield is estimated at Rs. 53·20 crores, out of which the share of the States will be about Rs. 4·2 crores in respect of tobacco and matches.

In recommending these increases, I have kept in mind the need for a balanced increase among the various items I have listed. The increases proposed in respect of cement and steel are large, but they are warranted by the rapid increase in the demand for them within the economy and the situation of growing shortage and the consequent increase in retail prices which we are facing. The increase in the duty on sugar has the same objective as the increase we made last year in the excise duty on cloth, namely, to restrain domestic consumption in the interest of larger exports. In the case of matches, the existing duties were fixed with a view to ensuring sale at 3 pice per match box of 60's and 2 pice per match box of 40's. Under the decimal coinage system the equivalent of these prices comes to 4·7 N. P. and 3·1 N. P., respectively and this would have meant in effect retail prices of 5 N. P. and 3 N. P., respectively. With the increase in the excise duty now proposed, the retail prices will be 6 N. P. and 4 N. P., respectively.

As regards tobacco, it is known that a Tobacco Expert Committee was appointed in January, 1956 under the chairmanship of Mr. Raghuramiah, M. P., to review the procedure adopted in applying the criterion for assessment of unmanufactured tobacco. The Committee after careful consideration of the problem has recommended that the criterion of 'capability' of use for manufacture of *bidis* should be revised by the criterion of 'physical form' of tobacco other than flue-cured for purposes of assessment. Accordingly, such tobacco is proposed to be reclassified on the basis suggested by the Committee. For revenue purposes, the rates of duties on such tobacco are also somewhat enhanced. With the proposed increase in the rate of duty on these two types of tobacco, the rate of excise duty on unmanufactured tobacco for use in the manufacture of cigarettes is also being proportionately raised.

The tariff relating to paper has been re-arranged with a view to greater rationalisation and to absorb the higher profit margins now developing in the retail trade, and the rates of excise duty which had been kept deliberately low in the initial stages are being enhanced.

Finally, following the increases in the rates of excise duty on vegetable non-essential oils and strawboards and millboards, the existing slab exemptions in favour of small producers of these commodities are being suitably revised by executive notifications.

Direct Taxation

I turn now to direct taxation. Firstly, I propose to make certain adjustments in personal income-tax and super-tax rates. Till now, these changes have followed a standard pattern which I think needs a fundamental change. It is necessary to recognise that the basic rates should apply to the person who earns his income, that is, sweats and toils for it, and that others who derive their income from property and investments, that is, without making any direct effort should be made to pay more by a surcharge. Under the present system, there is no provision for earned income allowance for super-tax. For income-tax there is an allowance of 20 per cent, subject to a maximum of Rs. 4,000 for earned incomes not exceeding Rs. 25,000. For incomes in excess of this amount, the allowance of Rs. 4,000 is reduced at the rate of 20 per cent of the excess over Rs. 25,000, so that for an earned income of Rs. 45,000, the allowance is reduced to nil. I now propose to change this system altogether, applying a standard schedule of rates to all earned incomes and imposing a higher surcharge on unearned incomes. I have come to the conclusion that our existing rates of direct tax at top levels deprive the tax structure of all flexibility. It is said that they tend to diminish the incentive for work but I am aware that they encourage large-scale evasion. It is now recognised that the very high rates of direct taxation in the top income brackets in many countries of the world are in practice tolerated or tolerable only because of considerable evasion that takes place. In other words, the high rates tend to be applied to a corroded tax base. I now propose a revised schedule of these rates and introduce a new scheme of surcharge levy which will mean that the total of the income-tax, super-tax and surcharge for the highest slab will be brought down from the existing level of 91·8 per cent to 84 per cent for unearned and 77 per cent for earned incomes. The surcharge will be 5 per cent on the tax computed at the standard schedule rates for earned incomes up to Rs. 1 lakh and 10 per cent on incomes in excess of that sum. For unearned incomes, there will be a uniform surcharge of 20 per cent over the standard schedule rates. When a person's income is partly earned and partly unearned, the unearned income will be considered to belong to the slab in which the earned income ends and to higher slabs where necessary. The rates for the lower slabs have been adjusted in keeping with this change in respect of top slabs. To provide relief to the middle classes, I propose that no surcharge on unearned income be levied where the total income does not exceed Rs. 7,500. The reduction in the rates of direct taxation will cost the Exchequer Rs. 7-1/2 crores. This reduction should, however, be judged in the light of the other changes in direct taxation which I shall mention later.

I propose also to widen the present income-tax base by reducing the taxable minimum from Rs. 4,200 to Rs. 3,000. The minimum limit had been raised over the past few years mainly for administrative reasons. An income of Rs. 4,200, modest though it is in absolute terms, is quite a large multiple of the average level of incomes in the country. It is reasonable to expect that those with an income over Rs. 3,000 should also make their contribution, however small, to the Public Exchequer, and should come within the range of direct taxation. As development proceeds, there will, I expect, be a large and progressive increase in the number of incomes within this range and I think it is essential if the Exchequer is to benefit proportionately from the expansion of incomes consequent on development, that these incomes are brought within the income-tax range. I, therefore, propose to place the exemption limit now at Rs. 3,000 for individuals and Rs. 6,000 for Hindu undivided families. I propose, however, to couple this with an increased allowance for married people. The extra tax-free slab of Rs. 1,000 which at present applies to married people will now be raised to Rs. 2,000. The wider coverage of income-tax consequent on this set of proposals will bring in about Rs. 5 crores this year.

My next proposal relates to the taxation of companies. I propose to raise the income-tax payable by companies from the present level of 4 annas in the rupee to 30 per cent and the Corporation Tax from the present level of 2 annas 9 pies in the rupee to 20 per cent. As Hon. Members are aware, shareholders of companies are entitled to credit of income-tax paid on their behalf by the company. The net effect of the proposal to increase income-tax on companies will, therefore, not be very significant. It will to some extent help us to check tax evasion.

The need for corporate savings is as great as ever. In view, however, of the increase proposed by me in the rate of Corporation Tax, I propose to reduce the Excess Dividends Tax—

to 10 per cent on distribution of dividends between 6 per cent and 10 per cent of the paid-up capital,

to 20 per cent on distribution of dividends between 10 per cent and 18 per cent of the paid-up capital, and to 30 per cent on the balance.

During the debate on No. 3 Finance Bill introduced by me last December, reference was made by certain Hon. Members to the stimulus that my proposals were likely to give to bonus share issues. I was aware then that with the increase in the rates of Excess Dividends Tax and the introduction of the Capital Gains Tax, there

should be some change in the rates of tax on bonus issues. I have considered this matter and propose to raise the tax thereon from the present level of 12½ per cent to 30 per cent.

At present, rates of super-tax for inter-corporate dividends are about 17 per cent for Indian companies and 20 per cent for foreign companies. With the increase in the basic rates of Corporation Tax, these rates require adjustment. I propose, accordingly, to reduce the rate of inter-corporate super-tax to 10 per cent for both Indian and foreign companies on dividends received from Indian subsidiaries. The effect of this will be that, so far as foreign companies working through subsidiaries are concerned, the total tax payable by them will remain practically unaltered. Similarly, for foreign companies operating through branches and earning other incomes, the rate of Corporation Tax will be reduced from 36 per cent to 30 per cent. I expect that, with these changes, there will be some encouragement to the investment of foreign capital in India.

My next proposal with regard to companies relates to the tax on undistributed profits of companies in which the public are not substantially interested. This tax has frequently been the subject-matter of considerable argument. The principle on which the tax is based is unexceptionable, namely, that individuals having income in the higher brackets should not be allowed to avoid payment of super-tax by forming close corporations and not distributing their profits in such corporations. However, in the context of our development plans, we have to balance against the need to prevent super-tax avoidance the needs of companies for funds required for expanding industrial activities. I propose to reduce to 45 per cent the minimum percentage of available profits which an industrial company of the above type should distribute in order to avoid the penal consequences of inadequate distribution; for non-industrial companies the percentage will continue to be retained at 60 per cent. For a company which derives profits partly from industrial activities and partly from other activities, the minimum distribution required will be 45 per cent of available industrial profits and 60 per cent of other available profits. Investment companies will be required to distribute 100 per cent as usual. In cases where the accumulated profits and reserves are not less than the paid-up capital or the value of the fixed assets, the minimum percentage required to be distributed is at present 100 per cent for all companies. I propose to reduce the percentage to 45 per cent for industrial companies and 30 per cent for others. With these reductions in the minimum amount required to be distributed, it will be unnecessary to continue the present scheme of adjudication by the

Commissioner of Income-Tax and the Board of Referees on the business needs of companies seeking total or partial exemption from the operation of the provisions relating to minimum distribution.

There are certain other minor changes proposed upon which I do not wish to dilate here. These relate to exemption from income-tax of employer's contribution to a recognised provident fund, increase in the percentage of the income that will qualify for rebate of income-tax if saved in the provident fund or insurance, limitation on the carry-forward of losses, etc. I have also taken the opportunity of redrafting the provision relating to deposits to be made by companies of a portion of their undistributed profits and development rebate and depreciation allowances so as to bring out the Government's intention more clearly.

Altogether, the changes I propose in the taxation of companies will bring in additional receipts amounting to Rs. 7½ crores.

I now come to two new tax measures designed to alter the tax-structure in a way that will ensure a more effective and at the same time a more equitable basis for taxation. My first proposal is to levy a Tax on Wealth. It is recognised that income as defined by existing income-tax laws and practice is not a sufficient measure of tax-paying capacity and that the system of taxation on incomes has to be supplemented by taxation based on wealth. This is more equitable and it also promises, over a period, to reduce the possibilities of tax evasion. I mentioned earlier the reliefs in income-tax at top levels of income which I am introducing this year. These reliefs are meant as an encouragement to larger effort and greater initiative on the basis of which alone a wealthy and progressive economy can be built up. It is necessary at the same time to adopt other measures which are egalitarian in intent but which do not have a disincentive effect. The Tax on Wealth that I am now proposing is one such measure. This tax will be payable by individuals, Hindu undivided families and companies. In the case of individuals, values upto Rs. 2 lakhs and in the case of Hindu undivided families values upto Rs. 3 lakhs will be exempted. In respect of wealth exceeding that amount, the rate will be ½ per cent for the first Rs. 10 lakhs, 1 per cent for the next 10 lakhs and 1½ per cent on the balance. This will thus be a progressive tax which, together with the surcharge I have recommended in respect of income-tax on unearned incomes, will contribute towards a more effective taxation of the richer classes without diminishing incentives to earn in the process.

In the case of companies, there will be no tax on assets up to a value of Rs. 5 lakhs; on values beyond that, the rate will be ½ per cent. The Wealth Tax is intended primarily as a measure of personal taxation but in the peculiar economic structure of India, I consider it advisable not to exclude companies from the purview of this tax. However, the rate of tax has to be low. This is why I have proposed a flat rate of only ½ per cent on assets above the exemption limit I have just mentioned.

Certain properties will be exempted from this tax. Some of these are:—

Agricultural properties;

Properties belonging to charitable or religious trusts;

Works of art;

Archaeological collections not intended for sale;

Balances in recognised provident funds and insurance policies;

Personal effects including furniture, cars, jewellery, etc., up to a maximum of Rs. 25,000; and

Books and publications not intended for sale.

With a view to achieving simplicity in the procedure for evaluating the various kinds of assets which form part of a business undertaking, it is proposed as far as possible to treat the business undertaking as a whole as a single unit for valuation. Other assets will be taken at their market value. The yield from this tax is estimated at about Rs. 15 crores.

The imposition of this tax as also the other measure now proposed should help in checking evasion. I am taking credit of Rs. 5 crores on this account.

Broadly speaking, the administrative set-up and the procedure for assessment and appeal will be the same as for income-tax. With regard to valuation of immovable non-agricultural property, the assessee will be given a right of reference to an arbitration committee against the decision of the first appellate authority. This committee will consist of a valuer appointed under the Estate Duty Act and another non-official member drawn from a panel of persons familiar with local property values.

The other proposal I make is the introduction of a Tax on Expenditure. This is a form of taxation which has no backing as yet of historical experience. It is, however, a tax which, given effective administrative arrangements, can be a potent instrument for restraining ostentatious expenditure and for promoting savings. In the present circumstances, I think all we can do is to make a small

beginning. I propose to levy this tax only on individuals and Hindu undivided families whose income for income-tax purposes is not less than Rs. 60,000. The tax will be imposed on all expenditure incurred, from whatever source it may be, in excess of certain sums which will vary with the size of the family. The amounts excluded are:—

> A basic amount of Rs. 24,000 for an assessee and his wife; and Rs. 5,000 for each dependent child.

The rate of tax will be based on a slab system, the rate for each slab increasing progressively with increase in the level of expenditure. Thus, for excess expenditure up to Rs. 10,000, the rate will be 10 per cent and for higher slabs the rate will increase progressively. As in the case of the Wealth Tax, the administrative set-up and the assessment and appellate procedure will be the same as those for Income-tax. I propose to make this tax applicable from the financial year 1958-59 and therefore take no credit for any receipts in 1957-58.

I propose to levy a tax on railway passenger fares. The rate of tax will be 5 per cent for distances up to 30 miles, 15 per cent for distances between 31 miles and 500 miles and 10 per cent for longer distances. No tax will be levied on season tickets. The yield of this tax is expected to be Rs. 14 crores in a whole year. In the current year, the yield will be about Rs. 8 crores. The proceeds of it less the amount attributable to Union Territories will have to be distributed entirely to the States. The States need more resources and railway travellers, like consumers of other commodities, should under present conditions, make a contribution. I propose to seek the advice of the Finance Commission before I bring forward proposals before Parliament in regard to the actual distribution of the proceeds of this tax.

Changes in Postal Rates

The Postal and Telegraph Branches of the Posts and Telegraphs Department are working at a loss. Except for unregistered letters and inland letters, practically all items of postal traffic are carried at a loss. On a number of items like post cards, money orders, registered newspapers, etc., the rates charged have, for many years, been substantially lower than the cost of providing the service. For example, it has been estimated that the average cost of carrying a post card is 7·24 naye paise as against the present postage of 5 naye paise. This results in an annual loss of over Rs. 155 lakhs. Every increase in traffic in these items—and traffic has been increasing—results in an increase in losses. With progressively increasing expenditure on construction of staff quarters and the provision of other amenities for the staff, the existing postal rates

are bound to prove even more uneconomic. The opening of unremunerative Post Offices and Telegraph Offices as part of the Department's expansion schemes under the First and Second Five Year Plans has contributed to the loss in the Postal and Telegraph Branches. The Department has also been building up its capital assets at a fairly rapid rate, the total capital outlay at present being about three times what it was before Independence. The annual provision, from revenue, for depreciation and replacement of these assets, as I have said before, is at present only Rs. 1·25 crores, and it has been decided to increase this provision to Rs. 2·50 crores during the current year in anticipation of a detailed examination of the whole question. In response to a demand which had been widely and persistently voiced by the book trade, both in and out of Parliament, the Government had appointed a committee to examine the question of charging a concessional rate of postage on *bona fide* books as compared to other items chargeable as packets, so that the cost of sending goods to rural areas which could be reached only through Post Offices might not be unduly increased. After considering the Book Committee's Report, it has been decided to allow a concessional rate of postage on books. All these measures, however, inevitably result in reducing the surplus earnings of the Department and of increasing the losses of the Postal and Telegraph Branches. To ensure the financial stability of the Department, it has become necessary to raise some rates. On post cards, the existing rates of 5 naye paise for single and 10 naye paise for reply post cards will be raised to 6 naye paise and 12 naye paise, respectively. Postage on local post cards will be raised similarly from 3 naye paise for single and 6 naye paise for reply post cards to 4 naye paise and 8 naye paise, respectively. For packets containing *bona fide* books only, the postage on the initial weight slab of 5 tolas will be reduced from the existing rate of 6 naye paise to 5 naye paise but on other packets the existing rate of 6 naye paise will be raised to 8 naye paise. The postage on additional weight slabs in both these cases will remain unchanged. In spite of these adjustments in the book, sample and pattern packet rates, the traffic in this category of articles will continue to result in a loss of over Rs. 8 lakhs per annum. The rates on parcels will be increased from the existing level of 50 naye paise for every 40 tolas or fraction thereof to 60 naye paise for the first 40 tolas or fraction thereof and 50 naye paise for every additional 40 tolas or fraction thereof. On inland telegrams, the charge for every additional word over the minimum of 8 words will be raised from 7 naye paise to 8 naye paise for ordinary and from 14 naye paise to 16 naye paise for express telegrams. The additional revenue expected in the current year from these increases is Rs. 85 lakhs.

RECAPITULATION

I must now recapitulate briefly the proposals I have made so far:—

(i) Firstly, my proposals involve small increases of import duties on a number of articles, the additional yield from which during the year is estimated at about Rs. 6 crores.

(ii) Secondly, the proposals I have made in respect of excise duty on various items such as motor spirit, refined diesel oils and vaporising oil, diesel oil not otherwise specified, steel ingots, cement, sugar, matches, unmanufactured tobacco other than flue-cured, vegetable non-essential oils, and paper. The additional revenues on this account are estimated at Rs. 53·20 crores for the remaining portion of the current financial year but Rs. 4·2 crores will be payable to the States as their share of the additional duties on tobacco and matches.

(iii) Thirdly, the proposals I have made in regard to personal income-tax and super-tax are estimated to bring in Rs. 25 crores in the current year of which the share of the States on account of income-tax will come to Rs. 3 crores. The reduction in income-tax and super-tax rates involves a loss of Rs. 7·5 crores. The lowering of the exemption limit is estimated to yield Rs. 5 crores. The adjustments in company taxation will yield about Rs. 7:5 crores. The tax on wealth is estimated to yield Rs. 15 crores, and to this I add Rs. 5 crores by way of better collections of income-tax, reflecting a reduction of tax evasion. The changes I have suggested in direct taxation do not make a big addition to public revenues this year but I expect that they will make an increasing contribution to the Exchequer as we get more experience with the new forms of taxation I have proposed and as the machinery for assessment and collection gets geared to its new tasks.

(iv) Fourthly, I have proposed a tax on fares payable by passengers travelling by railway. This will yield Rs. 8 crores. which will be distributed entirely to the States.

(v) Fifthly, I have proposed changes in postal and telegram rates, which are expected to yield a revenue of Rs. 85 lakhs.

(vi) Sixthly, I have proposed an Expenditure Tax which will be effective from 1958-59 but will apply to expenditures incurred in 1957-58.

The net accretion to the Central revenues as a result of these proposals will amount to Rs. 77·85 crores and the revenue budget will now show a surplus of Rs. 44·73 crores. Ordinarily, the overall deficit would, as a consequence, amount to Rs. 290 crores, if the additional revenue of Rs. 15 crores which would be passed on to the States as a result of these proposals is not taken into account. As Hon. Members will observe from the White Paper, Central assistance to the States for financing the Plan during 1957-58 has been placed at Rs. 278 crores. As a result of the additional revenue accruing to the States, there will, therefore, be a corresponding reduction in this figure, the reduction being taken in the provision for loans to State Governments. The overall deficit will thus amount to Rs. 275 crores and will be met by expansion of Treasury Bills.

Taxation and Development

I would like to say a few words about the import of these proposals. We are pledged to move in the direction of a socialist society. This means that we wish to develop an efficient system of production and an equitable pattern of income and wealth which will ensure well-balanced progress. Such a system requires a strengthening of incentives to work and to save. This is the rationale of my tax concessions on earned incomes. A standard rate of tax on earned incomes and a differential rate for taxation of unearned incomes, coupled with a tax on wealth and a tax on expenditure, will give us a better basis for assessment of tax liability, especially in respect of higher-income ranges, and will help us to close progressively the loop-holes for tax evasion and corrosion of the tax base. If I have brought down the exemption limit for tax liability, it is, firstly, because the present limit is too high in relation to the average level of incomes in the country and, secondly, because I am of the view that the ground must be prepared from now on for bringing into the tax net the increases in incomes which will take place in these ranges in the coming years. All my proposals in the field of direct taxation form an inter-related whole and should, I suggest, be judged as such.

My proposals in respect of company taxation are designed not merely to increase revenues but also, on balance, to encourage the ploughing back of profits through a check on dividend distribution. These measures are not intended to curtail genuine investment in the private sector, though it would not be unreasonable to assume that a slight slowing down for a short period will not, in the present

circumstances, be undesirable. There are, however, other devices to regulate private investment. I wish, therefore, to retain the bias in the tax-structure in favour of corporate investment. It is for this reason that I have left untouched the existing liberal depreciation allowances and the system of development rebates which, it is recognised on all hands, are a powerful incentive to investment. I have also, as I mentioned earlier, re-adjusted the tax rates to encourage foreign investment. I recognise that the shareholder or investor expects to get a reasonable return on his capital, but I also think that under modern conditions, there is even greater need for providing incentives for those who work and manage concerns and thus fall within the category of earned income-earners.

My proposals involve a raising of burdens on the near necessities of the common man. This is inevitable in the present circumstances. These burdens, large as they may look in the aggregate, have a low average incidence. A process of development in a country where most incomes are low cannot be financed without calling for sacrifices from all sections of the community, and there are special reasons at this juncture for applying some restraint on consumption in order to check inflationary pressures and to stimulate exports. I recognise, at the same time, the need in particular sectors may well be, from time to time, to assist in maintaining consumption at a reasonable level in terms of the minimum nutritional standards, and to this end, it may be necessary to subsidise food. My intention, therefore, is to build up from out of the additional receipts of taxation a food subsidy fund of the order of Rs. 25 crores. This fund will be used to keep down food prices, particularly in the more vulnerable areas.

The proposals that I have made will still leave the overall deficit for the year at a level somewhat higher than I would consider safe; but it is not unwise in my judgment to run a measure of risk, especially, if by doing so the expansionary impulse in the economy can be maintained at a reasonably high level. A budgetary deficit involves creation of fresh purchasing power. It implies that, on balance, the Government puts more purchasing power into the hands of the public than it withdraws from it. The stresses and strains that have developed in the economy are a warning against unrestricted deficit financing. I am not against deficit financing; I do recognise that it can play a role in promoting development. But it is a medicine to be taken in small doses; it is not food that would sustain the system. On the whole, I doubt if we shall be able over the Plan period to undertake deficit financing of the order indicated in the Plan and this means that we have to raise more resources by taxation, loans and small savings. Considering the needs not only of the current year but also of the next few years in terms of the

Second Five-Year Plan, I am convinced that the measures I have placed before the House today are essential and salutary.

Indeed, I feel confident that over a period, they will help us in getting out of the stagnancy of public revenue relatively to national income, which is a bottleneck from the point of view of further developmental planning. The ratio of public revenues to taxation in India is low, even by the standards of relatively underdeveloped countries. The way to raise it is to initiate structural changes in the tax system, so as to make it more progressive in terms of returns. The emphasis of my proposals is on this aspect of the tax problem. The propriety of the changes I have suggested should be judged in this light rather than in terms of their immediate yield. I have, in effect, outlined the tax structure for the Plan period. There will, undoubtedly, have to be some adjustments in this structure from year to year, but I expect that these adjustments will be relatively small. For the rest of the Plan period, our aim will be to watch how the changes I have initiated this year work in practice and how the system can be improved upon—to the benefit of the taxpayer no less than in the interest of the tax-receiver. Within this broad framework, I believe, all concerned can proceed with their plans with confidence and assurance of sympathetic consideration by the Government of any genuine difficulties.

This brings me to the end of my story; I am aware that the policies and proposals I have placed before you add up to a varied and somewhat formidable bill of fare. But the exigencies of the situation demand nothing less. There are moments in the history of every nation when it must advance on a great many fronts at the same time. The task before us is not merely one of raising resources for the immediate needs of the Plan. We have also to attempt at the same time a rationalisation of the tax structure, so that it can sustain a mounting crescendo of developmental effort in the years to come. I am one of those who also believe that the greatest advances towards economic equality and positive social improvement are made in difficult times when the conscience and the solidarity a people are raised to the highest pitch. This, I believe, is one of the chief lessons of the Second World War. Sacrifice on a nationwide scale and injustice or excessive inequality go ill together. And that is why I have endeavoured in the present budget to snatch from the needs of the moment an opportunity for imparting a new turn to our tax structure towards greater efficiency and equity. A heavy responsibility rests on us all at this juncture, and I have presented to the House an approach in terms of policies and proposals which is to the best of my judgment appropriate to this responsibility. I hope when the time comes for someone to judge whether we rose to the occasion or not, we shall have to our credit a record worthy of this House and of the nation.

II

THE BUDGET: BROADCAST TO THE NATION

This afternoon I presented to Parliament the budget proposals of the Union Government for the year ending the 31st of March, 1958. Normally, budget proposals of the Union Government evoke live or active interest only among the business and industrial community, because they affect or at least seem to affect them more directly than others. I do not think that our budgets since Independence have in fact been of such limited interest. With the commencement of the first Plan, at any rate, the budgets have been more than a catalogue of Government's receipts and expenditure; they have been more and more a reflection of the developments in the economy which are of vital interest to all classes and sections of the community. Technicalities apart, I think, it is a matter of interest to the common man to know what is happening in the economy and how far the budget is going to carry forward the nation towards its cherished goal.

Normally, the budget is presented every year on the last day of February. This year we had an interim budget in March and the presentation of the complete budget was deferred until now because of the elections; it is for the new Government to propose and for the new Parliament to consider the entire budget together with tax proposals.

I am not going to weary you with the details of the proposals that I have made in the budget. I would certainly not minimise the fact that these proposals entail a large measure of taxation generally, both direct and indirect. Why this should be necessary is a question that many will ask. It is a legitimate question, because no one, not even a Finance Minister, likes taxation as such. But taxation today is not what it was in the old days; the community gets an ample return for it. The country has a Plan which has objectives that have been nationally accepted. Taxation is necessary for the fulfilment of the Plan. The object of all this additional taxation may be summed up in one sentence: it is to ensure the implementation of the Plan.

People by now know what the Plan is and what it stands for. They are looking forward perhaps even impatiently to the results that it promises. They know that the Plan promises to the people

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Talk from All India Radio on May 15, 1957.

as a whole a better life, if not in a complete measure at the end of the second Five-Year Plan, at least to a degree. It takes them nearer towards the goal in view. Certain sections of our society advise us in favour of toning down the Plan because in their view it calls for sacrifices larger than we ought to shoulder. If this is only a plea for due caution, it is understandable. But, if it is what I might call cold feet, it is inexcusable. Sometimes this timidity or scepticism takes on a pseudo-scientific, pseudo-technical garb. It we, the Government of India, feel that we should pursue vigorously and with determination our endeavours to achieve the targets we have set ourselves in the second Five-Year Plan, we do so because the need to raise the standard of living and generally improve the living conditions of the people in the low-income groups is paramount and imperative. And there is no alternative to this Plan to achieve the ends in view.

You know that during the second Plan period, we propose increasing the national income by 25 per cent. which would also mean an increase of 17 per cent. or so in *per capita* income. But this does not mean that the people would be correspondingly satisfied. I can state this only by comparison with what has been achieved by the First Plan, a fact which is not generally realised.

Before the first Plan was launched, we had famines stalking the country, both in regard to food and clothing. Under-feeding was evident when we went round the rural areas and in slums in cities. Today it is scarcely realised that this phenomenon which struck the eye so forcibly five years ago is now almost non-existent. We, as a Government, cannot claim credit for having done a thing which is obviously a duty. The striking fact is that as certain needs have been filled reasonably satisfactorily, this by itself engenders and focuses public attention on other needs that have to be met. In other words, the horizon of our ambitions advances as we advance towards it, and this is, of course, the way of all real progress. We cannot lay the foundations of this progress if we spare ourselves the effort.

Today, what does the common man, whether in rural areas or in urban areas, want? He wants better living conditions. He wants the environment in which he has to live because of his poverty radically changed for the better. He wants that his housing needs must be met; even more than that, he wants the provision of sanitary facilities, the provision of drinking water, roads, lights, education for his children. He wants his income to be increased so that he can live better than at present. The living standards of the low-income groups are miserably low. Perhaps they have begun to rise a little. In this process arise new needs and new wants to fill.

Formerly in rural areas 80 per cent of the budget of a landless worker was for the provision of food. Today it is less than 60 per cent., the balance going to other needs. Similarly, in the case of the urban worker, formerly food accounted for 60 to 70 per cent of his primary needs. Now it has fallen to 40 to 45 per cent. You might ask: Do you propose to meet these needs within the time span of the present Plan? My answer is both 'Yes' and 'No'. It is 'Yes', because we propose to meet part of the needs and pave the way for meeting the further needs in the course of another Plan; 'No,' because I cannot give a complete answer in the affirmative.

Though the Plan involves several things like the starting of basic industries, big industries, transport, power, community projects and national extension, it all leads to one end, namely, the creation of better opportunities for employment, for more production and for increasing the earnings of the common man. Therefore the Plan targets, though in themselves very important, become secondary to the main object in view. But these secondary matters have to be achieved if the main object is to be achieved. It is like this. If you want to build a road on which heavy traffic can go, which will be smooth and dustless, you have to start with very heavy soling for the road, and sometimes you have to put big boulders underneath which would be covered up by layers of macadam. The user only sees the top surface of the road and criticises if it is not perfect. But he does not recognise that below that fine surface there are probably a few feet of soling which had taken considerable time and energy to fill in. Similarly, with an objective which ultimately means that much must be done for the common man, the preparatory work is of a character which is hardly seen. It is strenuous and yet scarcely appreciated.

Now, the Plan is a big one. We started with a total investment in the public sector, that is, expenditure by the Government, of 48 hundred crores of rupees over the five years. Subsequent events have raised the cost of the Plan. There are also development programmes in the private sector no less important for the Plan than those in the public sector. For the time being, it looks that these are two parallel rails on which our Plan has to go forward. If one of them sags or its surface is not as frictionless as it should be, the excellence of the other rail will be a poor consolation. I do not wish to overwork this metaphor. My point is that the Plan is a national undertaking and it calls for the fullest co-operation on the part of all sections of the community. In this context, the so-called battle between interests and between sections of these is meaningless, though upto a point battles are excellent fun, quite invigorating to the contestants and even enjoyable to the onlookers.

The budget proposals I have made today aim at finding resources for the Plan. So long as the investment required was relatively small, the tasks were relatively easy. Now the Plan has gathered momentum and we shall reach the peak level of expenditures perhaps next year. There is, of course, no question of a sudden tapering off thereafter. The work of development is continuous and it tends always to accelerate. But this year and the next are of crucial importance. On them will depend the measure of success we achieve with the Plan.

Right now, we have on our hands the problem of foreign exchange. We are not exporting enough, and we are importing heavily for the plan. This process cannot go on indefinitely. We have to earn more foreign exchange. We have also to cut down our expenditure on imports. We shall, even then, require funds from abroad. There is nothing wrong about this. Most countries which are now highly advanced industrially received considerable foreign capital in the early stages. Borrowing for productive purposes is not a bad thing; in fact, it is inescapable. There is not yet sufficient awareness internationally of the importance of this problem, but beginnings have been made. There are international agencies which play a significant role in directing capital to developing countries, and several friendly countries have taken an interest in India's plan and offered assistance towards its fulfilment.

But in all this, the first step is for us to make the fullest effort we ourselves can. We must raise the domestic resources required through taxation, through market loans and through small savings. In no circumstances should the plan suffer for lack of our own effort. This is the keynote of my proposals.

Further, we have certain well defined social objectives in view. We wish to reduce inequalities. We are anxious to enlarge opportunities for the common man. We wish to foster the spirit of enterprise and initiative in every individual subject only to the interests of society. All this is summed up in our concept of a socialist society. Socialism cannot be built without persistent effort and sacrifice, because our problem is not merely one of taking away something from some people and giving it to others. It is much deeper. Therefore, we need to alter our tax structure. I have endeavoured to benefit those who work; I have offered them an incentive to work harder, to produce more and to earn more. I have at the same time imposed heavier burdens on unearned incomes, through a surcharge on income-tax and through a Wealth Tax. The salaried classes contribute a significant proportion of the income-tax collections because we collect the tax from them before they get their salaries, and I wish to encourage them. They should earn more and

should have a larger take-home pay. They pay their taxes in full; there is no scope for evasion in their case. The high rates of personal taxation hit them hard, while incomes from property and business incomes have a way of coming through relatively lightly. My tax proposals will in time reduce the chances of evasion, and they hold promise, I submit, not only of progressive increases in public revenues but of taking nearer to the egalitarian goal.

I will not deny that I have put burdens on the common man, but I have spread them wide. I have still a deficit in my budget. So I shall, on net, be creating more purchasing power. We have at this stage to take a long view of our requirements. If we do not raise resources for the plan when its outlay this year is around 900 crores of rupees, how shall we raise it when the outlay goes up—and that will be before long to Rs. 1,100 crores or Rs. 1,200 crores? I do not think printing of notes is the answer. That course is worse. It raises prices and imposes hidden and often iniquitous taxation on the people. And, further it produces economic and financial instability.

Have I slipped into technicalities? I promised not to. I will sum up what I want to say, and that is pretty simple. We must fulfill the plan to the best of our abilities and to this end we must find all the resources we can. Even then, we may find ourselves in difficulties for reasons beyond our control. But this is the time when we must give of our best; the rich, the not-so-rich and even the poor. Only so can India and all of us prosper.

III

THE BUDGET AND THE PLAN—I

Sir, action provokes reaction, and if I have presented to Parliament a provocative budget, I cannot escape the consequences of my action. I, therefore, welcome the criticism of the Budget that has been voiced from different sections of this House. I take that criticism in good faith, but I am afraid I have to come back to the charge that, so far, my budget proposals still hold the field because no alternatives have been suggested, which would help us maintain the tempo of the Plan. I am sure my hon. friends in this House and those outside must be fairly fed up, even within the short time of less than a fortnight, with hearing about the Plan, what the Plan wants and what the Plan needs and why everybody should be asked to make sacrifices for the Plan.

PLAN FOR THE PEOPLE

Hon. friends in this House have asked if the Plan is for the people or the people for the Plan. I am sure they did so merely because for the moment they were angry. There could be no people for the Plan in a democratic country. The Plan is for the people. Of that there could be no doubt. But then they go on to say that the people do not want the Plan. I have no evidence, no concrete evidence, to prove that the people do not want the Plan. So far as we on this side are concerned, we went before the electorate a few months back with only one weapon in our armoury. We promised the people that by means of this Second Five Year Plan, we shall change the economic structure of this country to the extent that will show visible results in the standard of living of the common man. It is not the privilege of only certain hon. Members to speak of the common man. I say, as a party we have come into existence; we continue to exist; we go before the electorate and we form the Government only for the purpose of doing some little service to the common man in this country. If hon. Members think they have a better claim, no matter to which party they belong, than the party which is now entrusted with the responsibility, I might say, the electorate has given the verdict against them.

Reply to the general discussion on the Budget in the Rajya Sabha on May 23, 1957.

Importance of the Plan

I am not in a polemical mood. I have no desire to cross swords with anybody nor do I want to excite any anger against the Plan as such. I am quite capable of shouldering the anger, the chagrin and the disgust of the people, who may feel the Finance Minister as such is a person who is not efficient, as a person who has been able to find methods of implementing the Plan; but I will be doing a great disservice to my party, to the Government of which I am a member and to the people of this country, if by any action of mine I shall draw upon the Plan the disgust of the people. I hope, I have not done so, because I do maintain that all those cries that we have been hearing from all kinds of people, from even certain sections of the Press, are either because they have not realised the importance of the Plan in the future of this country or because they want to use the present circumstances, circumstances which are inevitable, for their own purposes, for the purpose of decrying the party in power, for the purpose of making that party fail in carrying out its pledges to the people and for wrecking the Plan.

Hon. Members might realise that there is no use saying that we want the Plan, we support the Plan, but we will not give you the means to fulfil the Plan. If hon. Members feel that these means are not the correct means and that there are better means, they should say so. It is no use saying, as my hon. friend, Mr. Bhupesh Gupta has said, 'Well, if you want to implement the Plan, you had better freeze the assets of all foreigners in this country, take over their trade, ban their remittances of dividends and capital and there you will fulfil the Plan.' My hon. friend must be slightly more intelligent than what he has shown himself to be, if he thinks that I am going to accept that advice.

My hon. friend has given us this advice, advice which, if I were foolish enough to adopt, would just mean that the Plan does not exist.

Problem of Foreign Exchange

Now, what is my main difficulty in regard to the Plan? My main difficulty is foreign exchange, because, if I did possess that foreign exchange, as the planners themselves have put it in dealing with deficit financing, the use of that foreign exchange would certainly help to inject a little larger dose of deficit financing in the country. If I had that foreign exchange which is adequate for me to buy foodgrains, I should have solved the major obstacle before the Plan today.

Foreign exchange, as I said, is the major obstacle, but by itself it is secondary to the question of availability of food supplies to

the country. I will not minimise the fact that, today, the major preoccupation of Government is the shortage of food supplies or a better distribution of food supplies. As I said in my speech in the other House, statistically it seems that we have adequate quantities, but there are large pockets which do not have enough food supplies and the very fact that we are still in a private enterprise economy which is completely uncontrolled. is being taken advantage of by anti-social forces to raise food prices.

Prevention of rise in Food and Cloth Prices

May I tell my hon. friends who speak about inflation, who speak about the effects of this indirect taxation which I have heaped upon the people of this country, may I tell them that the planners themselves have not altogether ignored this fact of the effect of prices on inflation. They have said—this is on page 86, paragraph 21 of The Second Plan—Prices of food and cloth occupy a strategic position in Indian economy, and a sharp rise in these prices has to be prevented by the use of all available devices. So long as these prices can be maintained at reasonable levels, the cost of living of the large bulk of the population can be kept under control. Increases in prices of other commodities—I want the House to mark this—would be a matter of comparative unimportance, although any excessive rise in prices anywhere in the system does carry the danger of a drawing away of resources into low-priority uses.

Therefore it is a fact that the major obstacle that we have today is the question of food supplies. But supposing I asked hon. Members to forget the Plan, do hon. Members think that in the present circumstances the Government could be inactive and do nothing at all? Have we not got the responsibility to find foodgrains for the people? Have we not got to raise resources? Have hon. Members, any of them who spoke, thought of the fact that as against a short-term income of Rs. 52 crores from indirect taxes, the Government have committed themselves to create a fund of Rs. 25 crores for the purpose of subsidising foodgrains? My hon. friend Dr. Sapru asked today, why all this for the common man, abolish it—I shall abolish it. But I do not think I shall be doing him injustice if I claim from him a very small increase in his cost of living by way of these excise duties on articles which are near-luxury, and then I say, 'I shall set apart a good portion of this revenue.' Certainly the quantum that I will be getting from the common man will only be somewhere between Rs. 25 and Rs. 30 crores and if out of this I set apart something for subsidising foodgrains, am I doing something which is unjust?

Need for the Plan

Well, I come back to the need for the Plan. In the present circumstances, the necessity for subsidising foodgrains, for spending a little more money on agriculture, will be an inevitable burden on any Government, Plan or no Plan. But still, what is the use of a free country, what is the use of a Government which is elected by adult suffrage, if it does not undertake to move the economy from its position of stagnation, an economy which is terribly static and which would not move into something which is dynamic? After all, today our problem is the fact that we have investment without savings, investment which is credit finance. This is due to the fact that the economy is stagnant, an economy which will not move. We have undoubtedly large purchasing power in several sectors of our economy—hon. friends opposite will deny it, but it is a fact—a larger percentage of purchasing power in the hands of many people who did not have it before.

The fact that our national sample survey has revealed that the proportion of the expenditure on foodgrains, both in the rural and the urban sectors, has changed, indicates a certain amount of additional purchasing power. But that purchasing power does not come into savings, because the saving habit is not there. Certainly not in the sense that we think of it, that is, putting it in a bank or buying national savings certificates, or lending to Government. Are we to change the structure of our economy or to keep it over? The predecessor of this Parliament had approved of the Plan. It is not a question of an arbitrary Prime Minister imposing a Plan on an unwilling people. The predecessor of this Parliament, as it is now constituted, had approved of the Plan. This House itself had approved of the Plan. I remember having spoken before this House in September last. The country has approved of the Plan. And may I ask in all humility, "Does it lie in the mouth of any hon. Member, who has been elected by this country, to say, 'No', we do not want the Plan?" The Plan is for the people; not the people for the Plan.

Therefore, may I submit in all humility that when I come before this House and the other House, before Parliament and the people with these proposals, I am doing so not because I want to exhibit my cleverness, not because I want to borrow freely from Mr. Kaldor or from Mr. 'X' or from somebody else, or that I take out certain portions from the Taxation Enquiry Commission's Report, or that I discard some of them. I have come before the House with these proposals, because these are the minimum that I can, at the present moment, put forward before the House which will help us to sustain this Plan, to carry it to the next stage forward.

Cost of the Plan

Various speeches have been made on the Plan, but I must give the pride of place to my hon. friend, Dr. Kunzru. Well, in one sense, I always welcome Dr. Kunzru's criticism of Government, because it is objective criticism.

He has raised some questions which should be answered. He went to the fundamentals. I think I should take the original of his speech. He wanted to know the exact cost of the Plan. And as the cost of the Plan will be increased further on account of the rise in prices internally, he said, we must have a full idea of the Plan before we consider the measures that are going to be adopted. And, thereafter, he quoted para 38 of my speech and then presumed therefrom that, in view of the fact that both the Planning Commission and the Finance Minister are doubtful about the availability of funds required for carrying out the Plan, it is necessary to examine carefully the scale on which taxation is now being imposed. He also wanted to know how the figure of Rs. 450 crores, that I mentioned in my speech in March last, of foreign exchange that is available, was made up and what are my expectations in regard to the future.

Well, I think I should certainly try to answer him and in answering him I would like to indicate that with all these difficulties, we do not want to whittle down the Plan. In my speech in March I mentioned the figure of Rs. 450 crores of foreign exchange which was made up of loans from foreign Governments, where our expectations would be realised—Rs. 185 crores; grants Rs. 104 crores; undisbursed loans of the International Bank—Rs. 73 crores; export credit for the steel plants—Rs. 78 crores; loan from the United States Banks and Rs. 6 crores for the Air India International. All these amount to about Rs. 447 crores. Dr. Kunzru asked me what my expectations are in regard to the future. Well, those loans that have been promised since then and those that might be expected, might be expected to be roughly about Rs. 550 crores, or a little less, leaving an unbridged gap of Rs. 350 crores or thereabouts. And that is really my problem today. My problem is, that, in this Plan, we shall be needing foreign exchange for nearly Rs. 350 to Rs. 400 crores. All that has not arisen merely because of the Plan. There are certain non-Plan schemes which have come in, which have raised the need for foreign exchange.

Rise in Costs

I am not in a position to say precisely what is the amount that I have to attribute to the increase in the cost of the Plan. It is not

possible to give an accurate estimate of it, because the costs still rise. On the question of steel prices in the world, I am told the rise in prices until last year was of the order of six per cent per year. I am afraid now it is going up a little more. So, it is very difficult for me to give a precise estimate of the foreign exchange needs of the Plan now. And on the same basis, it is very difficult for me to give a very precise estimate of the total amount needed for fulfilling the Plan in its present form. Subject to marginal adjustments, we have said we need Rs. 4800 crores and an estimate made by the Planning Commission has been of the order of, say, another Rs. 400 crores—may be it will be a little more. But what I did mean when I spoke in my speech about phasing the Plan was not cutting down the Plan.

Core of the Plan

It has also been freely mentioned in this House, and elsewhere, that we might elongate the Plan. I am afraid the Plan is not a piece of indiarubber. I mean, it is not something which has a certain flexibility and which I can elongate. It is composed of various items, for which commitments have been entered into and a postponement is impossible. I mentioned in my speech the core of the Plan. Well, the components of core are more or less inter-related. If we do plan for the steel plants, the coal necessary for them has to be raised, and the coal necessary for the utilisation of that steel to some degree has to be raised. And we need railway development for the purpose of steel plants and for the purpose of moving coal, apart from the fact we need it for the purpose of moving the finished goods. The very fact that we are pumping in more money into the country makes passenger traffic also a big burden on the railways, because it is increasing far more than the railways can cope with. And, in some cases some of our hydro-electric schemes as well as the plants for steel are integrated with the power plants. That is why I mentioned all these four as being integrated and we should push all of them through.

Somebody suggested that we should do away with the third steel plant. I would say that it cannot be done because we have entered into commitments, and the foundations have been laid for the cokeoven factories, and foundations are being laid for the blast furnace even for the third plant. We cannot cry a halt today. There is another aspect of the question also. We are borrowing freely both by deferred credits and also by plants, where we could, from foreign countries. We hope to borrow more in the future. Even under the T.C.M. programme under which we imported foodgrains, it was done on the credit of this country. So far as the future is concerned, I am sorry I cannot accept the advice

of my hon. friend when he says "I will not pay back" because I expect more loans to be. forthcoming.

Repayment of Loans

The Second Plan is not the end-all of everything. The Third Plan and the Fourth Plan will come. May be, the pressure on foreign exchange will not be so great. But nevertheless foreign help and foreign capital will be needed. Therefore, I must make arrangements to repay my loans. Today I find that the only stable commodity on which I can depend in order to build up resources for repayment of these loans happens to be steel. Our jute exports might come down. Our tea exports might not expand. Our textiles might contract. We might get additional exports in the engineering industries. But the only commodity which the world will accept from any country in the future on a barter basis or cash basis would be steel, and the effort that we are making as a Government to borrow from abroad is clearly based on the fact that by servicing these loans we can pay them back because we are building the steel plants. We come back to the basic core of the Plan. Well, you might say "why don't you draw up something else?" This is a matter of constant review.

Problem of Waste

Hon. Members have mentioned waste. I am aware of it. Waste does occur. Waste occurs in matters in which I am myself interested. Well, we started the three steel plants. In the case of two of them, after having started them, we found that our commitment in regard to water supply was greater, because the figures furnished to us were not accurate. May be, if we had carefully seen this, we might have shifted the plants elsewhere and saved the cost on water supply. We might have had a further look at the contour of the land or avoided the filling up of the canals which we have done in the case of Bhilai. We might have chosen more level ground and avoided the need for lifting about six million cubic yards of earth as we had to do in Rourkela. All these things we can do. It is easy to be wise after the event. If anyone were to ask me "will you take the blame for it?" I will say "I will". We would never have a steel plant by too much emphasis on wastage. The risk is worth it. You have to judge the cost by the results, not by the initial cost of a few mistakes here and there.

An hon. Member, Prof. Wadia, was saying that we are feather-bedding civilians here, that officers are corrupt and that there is an *esprit de corps* among the services which is perhaps tolerated by Ministers, and therefore, we do not hold up the offender for punishment. May I tell him, as a person who has been in Government for

five years, that no officer will take any responsibility today merely because he is afraid, and we suffer today because officers are afraid of taking responsibility. And a speech from an experienced person like Prof. Wadia—I suppose he was formerly a Government servant himself—in the manner he made it is going to make it increasingly difficult to make officers take responsibility.

No nation is ever built into an industrial nation without some risks being taken, without some waste occurring, because it is always easy to be wise after the event. I have no doubt in my mind that if Prof. Wadia is to re-do all the irrigation projects, he will do them much better because he would have gained experience and known the defects of the plan from the faults of the people who have planned. I have no doubt about it at all. I am quite prepared to admit that many of these projects do not yield the return that you expect from them. It is a matter with which I have been concerned. I had an evaluation made of all these projects, a quick evaluation, but I find from it that even if the agricultural programme is carried out in its entirety, it will not yield enough to amortize the capital expenditure in some cases, even to pay interest on the capital that we have put forward. But that does not mean that we should not undertake it. We will do better in future. We have done better in some projects because we have found the right institution; I agree that waste must be checked at every stage and there should be a continuous check. It is not a matter of periodic enquiry. It is not a matter of appointment of a Parliamentary Committee today and getting its report and then scrapping it. It is a continuous process. I do take the admonition of hon. Members in regard to waste as a person who is in charge of the Exchequer of this country very seriously and we will try to put double checks.

Non-plan Items

But then, there are other factors. I will tell you a non-Plan item. I was in Calcutta a few days back. We have spent more than Rs. 80 crores on rehabilitation of the East Bengal refugees, and we have not rehabilitated any. It is certainly a terrific case against Government; but it is also a terrific indictment against the vagaries of human fortunes. These people who have come from East Bengal are in a position totally different from those unfortunate people who came from West Punjab. We are not in a position to rehabilitate them, and one mistake that we made was followed by another, and today the problem is there in all its grimness, an easy plaything for my hon. friends opposite, who hope that we shall fail again and, therefore, that Bengal might become a Kerala. I

admit that we have failed. I could tell this House that we are going to make another earnest attempt because we shall not allow, as my hon. friend said, Bengal to become a Kerala. Therefore, while I heartily welcome the criticism from my hon. friend, Mr. Sinha from Bihar, who spoke in a language which I did not quite understand—I could follow the gist of it—I welcome the spirit in which he offered his criticism; we want more of it. After all, if he thinks that at some time or other he is going to take my place, he must speak in a manner in which he would like to be spoken to when he is here. That is parliamentary responsibility, not what my hon. friend Mr. Bhupesh Gupta does sometimes.

I welcome criticism against this Government. I am not in a position straightaway to describe the organisation that we would establish for the purpose of a continuous check. I might mention various appurtenances that we have in the Secretariat, the Organisation and Methods Division, the Economy Unit, etc. But I do find that this is not adequate. It has to be more powerful. It has to work a little harder than what it does now and its ambit should be increased. I will again remind hon. Members, not only here but elsewhere—that there is nothing to be gained by quarrelling with the tools with which we have to implement the Plan. The tools with which we have to implement the Plan happen to be human material. We have to work the Plan with the tools and he is a bad workman who complains about his tools. I shall not say that the people who work with me—my colleagues who happen to be permanent civil servants have let me down. I have worked as a Minister for five years and I have not had a single instance in which I had to complain about any subordinate of mine. If at all there is any complaint, undoubtedly, the fault is mine, not that of the officer, because I do not give him a correct diagnosis. Therefore, I will beg of this hon. House, let us not find fault with the tools that we require for implementing the Plan. After all, the Service happens to be part of ourselves. It comes from the same social strata from which we come, good, bad or indifferent. Their faults are a reflection of our faults; their virtues are a reflection of our virtues. Then, why complain of our tools?

Phasing the Plan

I do not propose to say more about the Plan except to say that phasing does not mean cutting down. There is some way by which we can phase the Plan. Maybe, there are a few things that we want to start here and there. We can postpone them. It might

be that, if I have the foreign exchange available, I may not put up a fertiliser plant, but may import fertilisers. I may cut down the import of fertilisers. I am thinking of manufacturing pharmaceuticals. It is very important because we are importing about Rs. 16 crores worth of medicines. I may say, "Yes, it is very important for me to save, but, nevertheless, let me not think of it, because I do not have the foreign exchange available if I want to put up the plant." I may cut down imports. There are various things in which we have to make adjustments. But I cannot detail these adjustments because such adjustments are made from time to time.

An hon. Member mentioned foreign exchange and said, "We are paying the penalty for his being the Commerce and Industry Minister for a period of about 4½ years." Well, if it gives him any satisfaction to say that I have no objection to giving him that satisfaction. I may tell the hon. Member that it is not so. During the period of my stewardship as Commerce and Industry Minister, I had augmented the sterling reserve, even after having a fairly liberal programme of more than Rs. 1 crore. In fact, you may ask, "Why did you not envisage a Plan of this nature, when you need more foreign exchange resources?" If that is the argument, I accept my fault that in 1952-53 I did not think of a Plan of this nature, where the foreign exchange reserves will still, notwithstanding all the help that we get, leave a gap of Rs. 400 crores. Well, I plead guilty, but to the extent that I have administered the Commerce and Industry Ministry, the foreign exchange position had improved by more than a hundred crores and the development was kept up right through, because that was a period in which there was an enormous development of the private sector. And from being a very unpopular person to begin with, I had become embarrassingly popular to myself, very embarrassingly, because everybody said that the Commerce and Industry Minister is a good man. And it was somewhat of a relief to me that on the 1st of September, 1956, I became unpopular again, because unpopularity gives you a certain amount of notoriety which popularity never does. But the fact really remains that there is no question of any deliberate omission on the part of the Government. I say, the Commerce and Industry Minister was doing it; I was doing it, most of the other people were doing it. The Finance Ministry was helping. The Planning Commission had its own share in what was finally done. But the fact remains that a number of non-Plan expenditures had come in and that is where I come to the particular subject that my hon. friend, Dr. Kunzru mentioned, that is, the question of defence.

Defence Problems

Various views have been voiced here—quite a number of hon. Members spoke about defence. It is queer that there are very few people who speak about it—a very important aspect of Government's activities, something radically important so far as the people of this country are concerned. Even then, there are two views. Hon. friends there say, "You need not spend any money on defence." Well, we have to spend money on defence primarily because of certain conditions that obtain in a neighouring country. Hon. friends have said that those conditions have been created by somebody whom we treat as friends. May be. But even if those conditions are not created, even if a neighbouring country is in a state of flux, its economy is jeopardised, its politics is something which is confusing, even if there is a state of unrest in that area, we have to mind our defences because a strong neighbour, even if he is militarily strong, might carry with him certain assurances. May be, there are many obligations which he has; he may not just do any wrong. But a weak neighbour always makes it necessary for us to have a reasonable defence.

I am glad that my friend, Dr. Kunzru, did caution us against thinking in terms of atomic weapons. We can't. We can't think in terms of entering the arms race. But, nevertheless, we must have a reasonable defence and this is a matter which is not lost sight of. The particular point which an hon. Member behind me raised was the question of an aircraft carrier. The answer has been provided. Dr. Katju did mention the fact that we propose to buy an aircraft carrier and we have gone further on it. These are matters which legitimately must be answered by my hon. friend, the Minister of Defence. I would like to apologise to this House on his behalf that other preoccupations prevented him from coming and satisfying this House on this particular issue. But, at the same time, I would like to say that we cannot completely place our cards on the table. I am sure Dr. Kunzru will be the first to ask us not to.

Another point he mentioned was the futility of having an aircraft carrier without submarines. There are some technical things about which I can say nothing. I think that there are people who think that it is not an absolute necessity. But I think that Dr. Kunzru is right, but it is a matter which has to be thought of. But everything has to be thought of in relation to the Plan and the resources that we have—the foreign exchange resources and the economic situation in our country which again hinges on the food problem. Therefore, what we have done has been after great deliberation. I can assure my hon. friend, Mr. Sinha, that there is

no attempt at running a race. We know we cannot run a race. But still, the equipment that we have and the morale of the forces have to be kept at a certain high pitch. Therefore, I welcome the interest that Dr. Kunzru has shown in regard to the amenities that are provided now for the Army. I am not in a position straight-away to say that we can do all that he has suggested. In the matter of schools, he is not satisfied with the existing institutions. The Army must be reasonably satisfied.

It is a matter worth looking into and I shall certainly ask my colleague to look into the point which he mentioned. I do agree with him that the morale of our troops has to be maintained, but in this process of cutting down salaries and revision of salaries that we have indulged in in the past, maybe we have created a residue of discontent in a sector of the public services. Where contentment is paramount, these are matters which we look into. I am speaking for myself. I will have to give this assurance to Dr. Kunzru that whenever a Defence Department file came to me, I took the Army view in the matter, because I felt that the Army could feel that the civilian Ministers were not against it. They would like to think of their difficulties. I can tell the House of an instance where somebody in his craze for economy thought of cutting down the sugar ration of the *jawans* and the matter passed through a number of officers and ultimately came to me with the approval of quite a number of officers, intermediate cadets. Well, I had to say, "No. I do not want the *jawans* to think that the Government can save Rs. 10 or 15 lakhs by cutting down the sugar ration." I am merely narrating this incident to indicate that my bias in regard to any matter that comes from the Defence Ministry is in favour of the Army, the Air Force and the Navy and I would certainly like to do what I can in regard to the points raised by Dr. Kunzru.

CRITICISM OF SPECIFIC PROPOSALS

I will now come to the specific proposals which have provoked the wrath of many hon. Members. Hon. Members will forgive me if I do not take individual Members' criticisms in the order of priority or in the order in which they have been made. Of course, my good friend and ex-colleague, Rajkumari, spoke and she did create a certain amount of comment. I am very sorry that anybody should criticise her for speaking freely. I am not in a position to say whether what she said was right or wrong, because for one thing the fact is that she has been a good colleague and she is also far my senior both as a colleague and as person in the party, but what I would like to say to people who are unduly angry is this:

We, Ministers, are human beings. We started, almost like everyone of you, with an agitational approach. In fact, when Dr. Sapru was in the Council of States in the old days, I perhaps was a little *enfant terrible* in the other House trying to make it impossible for the Finance Minister of the day to carry on his work. He happened to be a man who did not possess my colour. Sometimes we feel that we are in chains. Do you mean to say that I do not know the defects of my Government? Do hon. Members think that sometimes when I speak out my mind I can find no fault with what I myself have done? It is like this: We feel we are in a cage, and when we are let out, well, our wings do not take the direction we want; sometimes they take the wrong direction. I hope I will have a little more success, but it rests on hope, not on faith.

Planning in Democratic Atmosphere

So far as the measures that she suggested are concerned, it is true that sentiment and reason do not go together. Rationally we can do a number of things. A purely rational Finance Minister in a country like our good friend, Russia, would not have all these difficulties. I can assure you that with the little experience that I possess of human affairs, I could build up a beautiful structure, where human factors do not operate, where none of my decisions will be vitiated by being teleological, because here the Plan is vitiated by the fact that it has to operate in a democratic atmosphere, in a human atmosphere, in a country with a very big population, which needs family planning as my hon. friend, Dr. Anup Singh, put it. The trouble about this is that we have to function in the atmosphere in which we have grown. It does not need anybody to say that the Father of the Nation used to say that we should accept the tenets of the party. After all, the party has accepted these tenets. I am not a blue-blooded Congressman, but I did fight in 1943 against the Central Excise Act where the privilege given to the salt maker was denied. I embarrassed the Government for a period of one week and they conceded it. We did it. Why did we do it? You had been taught to do it. We had been taught to do it. A sentimental value was attached to it and we did it. Therefore we cannot brush that aside. Even in a situation like this where every pie has to be saved, even when I feel that my reason is against that course, we cannot get away from sentiment.

Democratic Sentiment

Today, if we ration the foodgrains that we have, I have no doubt in my mind that we shall have reserves. But can we do it? Can I go and take away the foodgrains in every shop and say, "I

am going to put them in fair price shops"? Democratic sentiment will not agree. People who are not going to pay any taxes complain about taxes. People who do not have any wealth complain about the wealth tax. People who have never spent Rs. 36,000 a year in their lives complain of wasteful expenditure. People who have no jewels complain against the possibility of income-tax officers going and valuing jewels. People who are unmarried or widowers, like myself, complain about difficulties to women. Why should people do all this? Sentiment. Therefore I would submit to my hon. friend Rajkumari, the moment we shall become more reasonable, we shall forget the sentiments of the past and develop new sentiments for the future. I will make a present of her suggestions to the country, *viz* scrap prohibition and introduce the salt tax. May be, that is wise and it is the best thing to do, but at present I am not in a position to entertain her suggestions because I am acting within a particular sector, under particular tenets. I will not be disloyal to these tenets because, for the time being, I have been asked to carry on and implement those tenets.

Angle of the Budget

But the point is this: We have to go back to this question of the angle that has been given by this Budget. We have followed and accepted certain tenets and we say that we will achieve the progress of this country; that is why it is my responsibility, to give the necessary turn to it, and I do claim, with all humility, that this Budget gives that particular turn. Hon. Members have spoken about the common man. A few people have supported the wealth tax, expenditure tax and the taxation on companies. You get leading articles in papers about the inequities of my direct taxation and incidentally to get popular support for the inequities of indirect taxation. But it is all needed for the reason that we have to give a bias towards a principle which we, the Congress Party, have accepted as a cardinal part of our faith. I do claim that my direct taxation takes us a step forward. It might be harsh, but it cannot be helped, because no change has ever occurred without an element of harshness about it. People do not attune themselves easily to change—change in any circumstances in their lives. Therefore, we have tried to mitigate the effects of the change and confine them to very narrow limits.

Lowering Income Tax Exemption Limit

I will now come to my direct taxation proposals. Well, I thought I would deal with it first. Mr. Parikh has criticised my proposals, lowering the income-tax exemption limit. Well, it is not as if I am not unaware of the fact that the lowering of the exemption limit would be resented.

But it has to be done for this reason, not because we think that these people down below Rs. 4,200 are very well off and can pay a larger amount. In fact, we are not expecting any large amount from them because the tax on that slab is 3 naye paise per rupee; but it is true that in the past we have been raising this question of exemption from one point to another. We devoted much thought, so much so, beginning with Rs. 1500, we went on to Rs. 4200 and the Taxation Enquiry Commission had mentioned this fact in Volume II, on page 136, paragraph 10 as follows:

"The exemption limit was Rs. 2,000 in 1946-47 and was raised by stages to Rs. 4,200 in 1953-54".

I don't think it is correct. It is probably a later date, 1955-56. They say:

> "We recommend that the exemption limit should be Rs. 3,000. It may be argued that the lowering of the exemption limit would impose considerable administrative strain and involve disproportionately large costs of collection. We are satisfied that administrative considerations are not so weighty as to militate against any lowering of the exemption limit. In so far as the assessees in this range are salaried classes, their assessment would be relatively easy. Even in respect of others, we do not think this step would require diversion of staff from assessment work on larger cases. Besides we consider that it will become more and more important for effective administration at all levels that a considerably larger number of persons should be on the list of assessees."

In attempting this, I have tried to mitigate the ill-effects of lowering the limit because I had raised, against the recommendations made by the Taxation Enquiry Commission, the married man's allowance from Rs. 1,000 to Rs. 2,000, so much so, that no married man will pay a tax if his earnings happen to be Rs. 3,000. Even though it is a little more, suppose he has Rs. 3,500, upto Rs. 3,000 he will not pay. I would like to tell the House that on that basis Rs. 1200 will be the amount on which tax will have to be paid and Rs. 1200 multiplied by 3, makes 3600 naye paise which means Rs. 36 or Rs. 3 a month. If hon. Members feel that Rs. 3 a month for that category will effect a particular class of workers, they would also have to remember that a very large number of people, shop-keepers, people who are not in the salaried classes, whose income cannot be deducted at source, are escaping taxation and this class is likely to grow in the future; and as we eliminate the top brackets from existence, in course of time, we shall have increasingly to depend on

this class for our tax revenue or alternately give up direct taxation and go to indirect taxation.

After all, in the country which has made planning a great success, Russia, the bulk of their tax comes from turn-over tax. Income-tax forms a small part. Savings undoubtedly form the larger part but then savings are compulsory and I don't think I have the courage at any time to get Parliament to agree to say that the entire public debt of ours shall be wiped off and no interest will be paid thereon. It is not possible, but my friend Mr. Khruschev has done it. Therefore there is a justification for lowering the limit to Rs. 3000 and hon. Members must recognise that in lowering that limit to Rs. 3000, we have also the marginal cases that get the advantage. The effect on the tax payer would be much more than what I have done by means of raising the married man's allowance by Rs. 1000. In fact, though I would like to do a little more for this class by way of allowances, my only difficulty is my resources at the moment. I would much rather stick to this figure and give allowances to married people, people with children, rather than keep the exemption limit at a high figure. Somebody mentioned that it should be Rs. 6,000 or Rs. 8,000. Then you will have no direct taxes at all. Mr. R. P. N. Sinha asks whether family allowances will not encourage further growth of population? There is an element of priorities even in the matter of discussion. We are discussing something very big. Family planning is undoubtedly a part of the Plan but I think my hon. friend would forgive me if I say that at the present moment, I think this prospect of their increasing the family by family allowances is remote. Because, as we hope to raise the standard of living of these people and their standards do get raised and their housing conditions are better, I am afraid, that itself will operate as a limiting factor so far as families are concerned. I would like to tell my hon. friend this, not that I have been completely indifferent to this aspect of the problem, but in the matter of changing this tax structure as I have done, we have to make it a little more broad-based. We might think in terms of roping in 4 lakhs of assessees a year and we hope we will rope in progressively a lakh more every year so that we shall have broad-based the tax structure and the erosion at the bottom will not take place, as it is taking place in some countries.

Our Tax Structure needs Broadening

Hon. friends would like a few figures. The maximum taxable limit as a multiple of the *per capita* income of the people I have tried to work out for various countries. The multiple in Japan is 2·25, in West Germany 1·37, France 0·8, in the United Kingdom 1·45, the United States 1·22 and ours is 11·15 in relation to our

per capita income which I have got at 269. It may be 300. If it is that, it will be 10. Whereas in most countries where the *per capita* income is 9,400, say in U.S., including all the allowances given to married men with children, the taxable limit is 11,496. On any comparison, our tax structure is inefficiently and irrationally placed and therefore I think we have to make a beginning. It is not that I have thought of inflicting this penalty of Rs. 36 on a person who gets between Rs. 3000 and Rs. 4200, but it is because I think that is the way in which we can broaden the tax structure and rope in a number of people who will not be in the area which we are thinking of. Even from the point of view of the number of persons paying taxes, in the United States 30 per cent. of the people pay income-tax, in the U. K. 30 per cent., Japan 11 per cent., Sweden 52 per cent., and in India 0·14 per cent. It has to be increased.

As I said, my reaction in this matter is that I would much rather expand the allowances than go back upon what we have done in this regard.

Tax on Companies

Even in the case of increase of tax on companies, it was necessary because our taxation is very low. Hon. Members must also recognise the fact that as against the increase in income-tax of 30 naye paise, a thing which is refundable, unless it be that the person was paying that tax, it is only the addition in the corporation tax of 3 per cent., which is an additional burden. I would like to give a few figures in regard to the incidence of company taxation. In India, the present incidence is 32:78 and it is proposed to be increased to 37:70. In the U.K. it is 40·85; in the U.S.A. 50·50; in Canada 40; in Sweden 56 and even in Pakistan it is 33. Therefore, I do not think I have done anything very serious but, in regard to the Wealth tax, I find that we are not alone in taxing companies. In fact, wealth tax is being levied on domestic companies in the following countries: In West Germany it is 3/4 per cent. In Norway it is 0:6 per cent., Switzerland 3/4 per cent., Finland 4/5 per cent., Italy 3/4 per cent. There is a tax on wealth of individual companies among all the States in the United States, the rates sometimes going up to as much as 2 per cent. Therefore, a wealth tax on companies is not something new. As I have mentioned in my speech the other day, I have carefully considered this matter and my Hon. friend, Mr. Parikh, himself, formerly used to feel our taxation was very mild. He used to say about these companies and other people that they should pay more; but in this country, you know quite a large number of companies are owned by a few individuals and even in the companies which have got

a broad-based shareholder structure, there are people who own 20 or 25 per cent., and therefore control the companies. Well, the question of operation of double taxation is there; it is inevitable but it is a matter of detail and for adjustment. Where some hardship is caused, these matters can be examined; but, so far as I am concerned, the scheme itself will drop, if I have to remove the wealth tax on companies.

Expenditure Tax

One point about the expenditure tax which I would like to mention is that hon. Members apparently—and even our people outside—have not realised the fact that it is going to be collected next year. Both these Bills, the Wealth Tax Bill and the Expenditure Tax Bill, will come before a Select Committee. I do not think the other House would agree to have the Rajya Sabha associated because they are Money Bills but I think there will be full opportunity for concerned interests to make representations. I do not propose to rush these Bills through, though they must be on the Statute Book by August, before the Finance Bill is completed. We shall certainly give consideration to any changes that are required and which are of a marginal character, namely, in the matter of collection. I do realise that the moment any tax is mentioned, the grim spectre of the tax collector at your door comes before you. I realise the allergy that we possess to the tax gatherer but I should like to give this assurance that it is something which is inescapable. You cannot have wealth tax and say that women should not be asked to declare their belongings. We would have to ask but I will take care—assuming I am here and I do not become a casualty of this Budget—to see that the people get used to this tax, that the administration allows them to get used to this tax. Of course, if I am going to have large-scale evasion, I might as well not have this tax. We shall take great care to see that this wealth tax is administered with a certain amount of consideration for the people, so that we will make them get used to it.

My hon. friend, Mr. Sapru, suggested a capital levy of a moderate character. How could it be moderate? It is a contradiction in terms. Even if it is a levy of 5 per cent. it will have to be rigorous and even then, we will have to go out, break up everything in the pots and pans. Otherwise, you will not know where the capital is. We cannot escape the obligation of having the tax collecting machinery and people getting accustomed to tell the tax collector what they have. Therefore, I do hope that we may be able to make the collecting authority a little more public spirited,

a little more sympathetic and I would do whatever I can towards that end.

Indirect Taxes

I now come to the indirect taxes. I do not know if hon. friends in this House have seen a little brochure which I have put out today and which has been circulated to them. They will find that we have mentioned really the effects of these taxes. But hon. friends say that in the market, they charge a little more. I find, at any rate, so far as the wholesale prices are concerned, the charges have not gone up very much so far as sugar is concerned. I would like to say, with regard to these commodities, it is wrong to say that we are fleecing the people. It is wrong to say that we are setting up inflationary tendencies. I do often find the economists saying that taxation is ecouraging inflationary pressures. Well, I am afraid I will have to re-read my economics because taxation is usually a weapon that is used under inflationary circumstances to limit consumption. We have had one experiment with which I began my career as Finance Minister. In September, we started the cloth excise duty. I would like any hon. member to examine the position since September last till today. In spite of the fact that we have imposed the excise duty, a large portion of that excise duty has been absorbed in the cost and prices have remained more or less steady. In fact, every time the Finance Minister speaks or is going to make a statement, the textile industry expects him to reduce the duty though it does not realise the fact that, though the stocks are high, production has been higher and altogether, the off-take has been more or less even. It is that which gave me courage in regard to sugar.

Taxation of other Commodities

The other matter that has been mentioned is regarding the taxation of various odds and ends. I may mention to hon. Members that in choosing these commodities, we have had to choose those commodities on which the incidence will not be very high. The Taxation Enquiry Commission have, in Vol. I—page 68—of their Report dealt with this question of incidence of indirect taxation. The Central indirect taxation to them is fractional, somewhere about 1·5 or 1·6 per cent. in the case of the rural people and perhaps about 3 per cent. in the case of the urban people. I maintain that the increases that I am contemplating in taxation will add about probably ¾ per cent. in the case of the rural people and about 1¼ per cent. in the case of the urban people. The incidence will be only that, but, may be, that if the anti-social elements are going to charge higher profits the people will have to pay more, the prices will go up; but I do want hon. Members, as I said earlier, not to look at it from the point of view of sentiment. The cumulative effect of these taxes on the people is very very small and I can tell hon. Members that we

have done far more harm in regard to the foodgrains, in regard to the price policy that we have followed, where over a week, the increase has been 18 points which means an increase of 5 per cent. The harm in regard to the standard of living of the people and inconvenience caused to the people is far more by a rise in prices of foodgrains than by these matters. Somebody mentioned the other day the cost of transport for a child in a middle class home rising by five rupees a month. Well, one can paint lurid pictures. Poetic imagination can take you very far. I have been cartooned as an Octopus. Even mentally, I am afraid, I am far short of being an Octopus and physically, certainly I am not. Therefore I want hon. Members to realise this. It is true that we have a constituency to look to. It is true that we are providing a weapon to my hon. friend to start no taxation proposals and agitation and prabhat ferries and so on. But it cannot be helped. If I do not do this my hon. friend will say, "Mr. T. T. Krishnamachari, the Finance Minister, wears glasses and therefore we should start a protest. All the parties, all the peasant and working classes in this country must protest against the Finance Minister wearing glasses or against the Prime Minister wearing button hole." Now so far as their protests are concerned they do not need any rational excuse. Anything irrational is as good. After all a protest is raised and they protest and protest and protest. That is what Hitler did. He believed that lies gathered momentum because you have repeated them in season and out of season. Therefore if you protest that this Congress Government oppresses the people, it plunders the proletariat; it does this, that and the other, well, the people may believe in it as you go on. Therefore I want hon. Members to realise this; I quite recognise that they may not like a particular tax because popular sentiment is against it. At the same time I do not want them to give up a critical examination of what it really means. And, if they do so, they will agree with me that in choosing taxes for purposes of augmenting our income, for purposes of providing a cushion for supporting the prices in food-grains, they will agree with me that I had chosen a number of articles where the incidence would be very low, and I can tell my hon. friends that I am quite prepared to justify my sugar excise duty—for this reason. I do want it and if I could possibly export 3 lakh tons of sugar we are exporting about $1\frac{1}{2}$ lakh tons now—I should be very happy. And sugar consumption is rising very fast. We were producing 14 lakh tons; we would now be producing some 17 or 18 lakh tons and we might produce some 20 lakh tons before long. Notwithstanding the fact of the ignorant licensing policy of the Government, to which my hon. friend, Mr. Rajagopal Naidu referred, there might be more sugar factories because he has been able to obtain some kind of a deferred payment credit since. I had refused to give licences.

The fact is our production is increasing. Our consumption is increasing faster, and I do want to be in a position to be able to export some more sugar because otherwise Dr. Punjabrao Deshmukh comes and says: "I want 300,000 tons of rice." My hon. friend, Dr. Kunzru, asks me: "Give me details of what we are importing." Well, we are importing quite a lot. We are importing normally about 500,000 tons of wheat and we have been able to import under PL 480, because of the United States of America, 3·5 million tons of wheat, which we will have in our hands by March 1958, and we expect to have a carry-over of one million and quarter tons or a million and a half tons. We have an arrangement with Burma to import 500,000 tons of rice this year. But my colleague Dr. Punjabrao Deshmukh says, "No, I want 300,000 tons more." Well, can I go to the foreign exchange committee and say, "We have no money". How can I say "No money." Something else is to be cut. Something very important will have to be cut. Penicillin imports will have to be cut. Drug imports will have to be cut. Dye imports will have to be cut. Raw materials for industries will have to be cut. But food has to be provided. If that is my position I have to do this and so far as sugar excise is concerned I have done this deliberately and I am prepared to justify it, because sugar still happens to be a very low consumption factor so far as the large portion of India is concerned. The per capita consumption is slightly higher in the north because some people make more sweets. I agree that there is need to raise the standard of living, that carbohydrates are absolutely essential, but I do not think 5 Naye Paise per pound is going to inhibit consumption as it did not inhibit consumption in the case of cloth. The inhibiting factor has been only to check an increase in consumption and I do suggest that we should at least keep the consumption of sugar at the present level for the time being in order to enable us to import more food, and I can tell my hon. friend this is more or less tied up with the foodgrain imports which we have to make.

Then, hon. Members have mentioned post-cards and one hon. friend, a new Member, Mr. Bhargava, has made a very good suggestion. In fact we have thought of various things, and my own personal bias as against the department was in favour of taxing the envelopes. I hope my hon. friend, my colleague, Mr. Lal Bahadur, will think about it. Of course we are spending about 7½ Naye Paise on every post-card. But these are all matters where no agitation is necessary. Representation is adequate because, in a matter like that, where the income is marginal we have to make that department more or less rational. My hon. friend has a strike on hand, which means increase in cost. And where is the cost to come

from? If higher salaries are paid I am perfectly sure that the post-card will cost 8 Naye Paise. But this is not a matter where Government are likely to be intractable because if somebody else agrees that something else can be done somewhere else and if he can point out where, as my hon. friend has done, it can be done.

So far as railway fares are concerned I would like to draw the attention of the hon. Members to our Constitution, article 269, which has specifically mentioned tax on railway fares and freights as a means of augmenting the State's revenues. My hon. friend, Pandit Kunzru mentioned the total resources for the Plan and he asked, "What are the total resources? What has the Plan mentioned?" I did repeat in various places that the States which are expected to raise 225 crores of rupees will not probably be in a position to do it. May be that the 800 crores of rupees that we expect as surplus from the States may not be realised in full, and may be that we have to take up the responsibility. Many States are in deficit. Friends opposite from Kerala want an augmentation of the Plan allotment for Kerala. Dr. Thomas says that if we raise the Plan allocation for Kerala from 87 crores of rupees to 174 crores of rupees there will be no inflation in Kerala. I must accept his advice because he is an economist and knows Kerala. The only trouble in accepting his advice is that I cannot immediately put my hands in my pocket and take out the 87 crores or 174 crores of rupees. I am very glad, Sir, that our Communist friends are, for the time being, on the saddle in Kerala. In fact, in future, I shall refer practically all the queries that my hon. friend opposite put to me to my friend, Mr. Nambudiripad. Mr. Nambudiripad comes and asks me, "We want the Plan allotment to be raised." Well, not that I feel that Kerala does not need it. I do recognise that the problem in Kerala is something which will be very very difficult to solve, and that is why I even envisaged the possibility of that magic happening in Kerala—it had a Communist Government—knowing full well, according to my own perceptions, that that magic cannot happen. But it is only illustrative of the fact that I know the difficulties they are labouring under. That is the position of every State Government to-day. Therefore I cannot tell the State Governments, "Here is 225 crores of rupees which you have to produce. I am cutting down deficit financing by 400 crores rupees. You produce another 200 crores of rupees, that is, 400 crores of rupees," because they cannot. My hon. friend, Dr. Kunzru, would have studied the budgets of various States. We only see marginal deficits in the case of one or two States.

Mr. H. N. Kunzru: Therefore, why is the Plan always prepared on such a basis If you know that the States will not provide their

share of the revenue, why do you put down in your reports that the States must provide so much?

Mr. T. T. Krishnamachari: Well, the point really is this. I do not know if my hon. friend ever drove a bullock cart.

I have driven one. Sometimes we have to reach the station. The train has come in. I make the cattle go through, I mean, I just push it, twist its tail, because my driver would have beaten it, and we get the last ounce of energy out of it and if the bullock is helpless we jump out of the carriage and run to catch the train. I am trying to make the bullock of the State produce more resources. I have got to twist its tail. I shall use the stick, but if it does not reach the goal, well, I shall run, and that is exactly my position. I cannot, being responsible for the governance of this country and for the well-being of the people, I cannot say that if somebody else does not do it, I am not responsible, because my responsibility is an overall responsibility. If the States don't do it, I have to do it. I am not looking at this question of State finances and Central finances as the other people did, nor do I look upon State responsibility as something different from mine. As I have said, Sir, in my Budget Speech, I can lay claim to very very small credit, in that I have been able to make the Cabinet at the Centre look upon the States' problems, particularly in regard to the low-paid servants of the States, as being a Central problem and a Central responsibility.

Well-being of the People Paramount

Therefore, I am not merely going to say, I am not responsible. I am responsible for the well-being of the people. That is the responsibility that the Constitution has placed on us. We have to take over the administration of the States in times of emergency; we have to find finances for them in times of emergency. If there is a flood in Bengal, we cannot sit quiet. I am sure my friend Dr. Kunzru will ask me to give a little more money if unfortunately there is a flood in U.P. Therefore the division between the Centre and the States in regard to responsibility vanishes in a welfare State. Therefore if the States are not able to do it, I have got to do it. I can tell my hon. friend today that all these taxes which we have levied, which my predecessor levied in February 1956, what I did in September 1956, what I again did in December 1956 and what I hope to do with your help by about July or August 1957, would put the Central revenue—whether it is its own or whether part of it is of the States—at a figure of Rs. 800 crores so far as the plan is concerned. And I do hope—if my hope is not going to be blasted by the changes that are being made or by

non-co-operation by vested interests—the progressive increase in direct taxes during that period, including the expenditure tax, would give us another Rs. 100 crores and I am sure we shall need all that because the more money we have, the more can we branch off into those functions which I mentioned in my budget speech.

Socio-Economic Problems

The socio-economic aspects which are the work of the States are being neglected, are being starved, because of want of resources. I would like to do something for the slums; I would like to do a lot more for the refugees; I would like to do something for the people who live in rural areas in huts, in insanitary surroundings and any little money that you can give me—a few crores of rupees extra—will be devoted to the benefit of the people in that sector. I respectfully submit that so far as we are concerned, our heart bleeds for the common man. It is not those people who shout and speak on behalf of the common man and do nothing about it who really feel for the common man. That we are helping the common man, we may aver from the fact that we have produced a budget, knowing fully well the amount of criticism that it will evoke, the amount of difficulties that we have created for ourselves in collecting these taxes and in keeping the economy on an even keel.

IV

THE BUDGET AND THE PLAN—II

Sir, The debate on the budget took more than three days, today being the fourth day, and 46 Members, apart from the Prime Minister and my young colleague, have participated in the debate and have spoken for more than sixteen hours. It will, therefore, be almost impossible for me to meet all the points that have been raised by all these hon. Members. I have to confine myself perforce to deal with some of the important points that have been raised. I should also like to express my gratification for the fact that the debate has, barring a few exceptions—as they always exist—been conducted at a very high level, in spite of the fact that hon. Members might have been exercised because of the sweeping nature of the taxation proposals, and it might have been mistaken that because they were of a sweeping nature, they were equally rigorous. Notwithstanding this, there has been an attempt to understand the difficulties of Government. For that I am very grateful.

Criticism by Members

The pride of place in regard to the discussion must undoubtedly go to the initial spell made by the Leader of the Communist Group. I do not exactly know what the hon. Member is really driving at. I am not going to refer to the philosophical or quasi-philosophical element in his speech, that is, his reference to the Marxist ideology. Nonetheless, it is very difficult to understand what he really wanted to say. There are quite a number of contradictions in his speech, of which I suppose he is aware, being a very intelligent person. I do not say of him that he is unaware of what he is saying.

His main charge against me is that I am not taking my work seriously. I know I have a lot of defects and I think, hon. Members of this House know about them. Quite a number of members, both on this side and the other side, have been with me for the last five years. But this is the first time I have heard somebody saying that I have not taken my duty or work very seriously. I suppose it would probably help us because the hon. Member opposite and I are probably of the same age and it is good for us sometimes to relax. But I can assure him that the basis of his charge that I was not taking

Reply to the general Discussion on the Budget in the Lok Sabha on May 31, 1957.

my work seriously has no substance in fact. I would not characterise it as being anything in particular except that he wanted to make a charge and he found this itself a good polemical argument and therefore he made it. Well, it is all in the game.

But may I ask if the hon. Member is very serious about this? Of course, my hon. friend is not the typical communist that we think of, at any rate in the past, the lean, hungry, ferocious-looking person who spits brimstone and fire. He is a very polite, suave, pleasant person, almost like a faded aristocrat who has lived well but not wisely. I have had some acquaintance with him, though not of a very near character, at the time when he used to attend, on stray occasions, the committee over which I was presiding, the Industrial Advisory Council. We have had the benefit of his advice in those Committees on the occasions he attended; but generally he preferred to be absent. I can also understand that my hon. friend is not interested. He was not interested in the Industrial Advisory Council because obviously the work of the Industrial Advisory Council was to help the private sector and so far as the public sector is concerned most of the things are decided at governmental level and the hon. Member was not interested in advising Government in regard to the development of the private sector. Am I to draw the conclusion that the hon. Member is not interested in this House and the work of this House, the parliamentary form of Government and in the plan that a Government functioning under that system wants to bring into being? Perhaps he is not. I do not blame him.

After all, there were various types of Marxists and he might feel like the one that won't change though I remember, that, in the year in which I was born, Lenin appeared to have stated that, after all, whatever theories and principles that Marx adumbrated, were merely the corner-stone, something on which we should build in the future. Well, Lenin is forgotten and what does it matter? Things have changed considerably since Lenin departed from this world. Therefore I am at a loss how to reply to the hon. Member. What shall I say? He seems to like the Plan or at any rate the planned economy. But he says: 'whatever you are doing in regard to the furtherance of the Plan is all wrong.'

Argument about Nationalisation

He has suggested some methods by which we can forego all these things, the provisions and these Financial Bills and collect enough money for the purpose of implementing the Plan. But he has been very charitable merely because he had his eye on Kerala. He said:

I am not suggesting that you should nationalise plantations.—I would like the House to mark the word—That indicates the policy of the Kerala Government—barring plantations, nationalise the rest. Of course, he had a queer theory, a new interpretation of Marxism, namely, you seize the wealth at the time that it is made. Oftentimes, it is good to go and buy milk when it is being milked from the udder of the cow. Then, there will be no chance of adulteration. But then the cow must yield the milk. If I seize all this wealth at the time it is made, well, there will be no incentives. He may say: 'I have asked you to nationalise everything.' A reply to it was given by Mr. Ranga to whom I am very grateful. The leader of the Communist group knows it perfectly well that, assuming that Government wants to nationalise—it does not—it is not possible for it to run all these enterprises. Therefore, it is just a suggestion thrown in the air so as to confuse the Government, if it will be confused, and confuse the wider public so that they may know the theory of the Leader of the Communist Party that he is making an able suggestion which will relieve Government of its responsibility to impose indirect taxes on the people. It adds ginger to the propaganda that might be carried on to say that you ought to protest against these indirect taxes and lead processions and organize hartals. Of course he has his eye outside all the time. I do feel after his speech and the light manner in which he treated the entire thing that he is not interested either in this Parliament or its work or in the Plan on which the work of this Government is mainly based.

State Trading

Another worthy suggestion that he made was State trading. Do we not know about State trading? In fact, may I say, in all humility that it was given to me to implement Government's policy with regard to the State Trading Corporation and I am happy to say that my colleague, who has taken my place is furthering the scope of this particular organization. We know about it. We propose to utilise State trading methods when it is most convenient to us, when it is good for the economy of the country. But then, I would like to tell my hon. friend—not that he does not know; he knows everything only he does not want to admit it. He knows fully well that there is no ten per cent margin in import-export trade because if there is a ten per cent margin, we will raise the duty and mop it up. If there is that margin on export trade, we will levy export duty because we have an eye on what the commodity will bear. He knows that fully. The Government is in a position to take out the extra profits from time to time and only leave the incentive in the hands of these people so that goods may be able to go out or be

brought into the country for the purpose of distribution. Still, he facilely suggests that there is a ten per cent margin and that even if we take over half of that Rs. 1200 crores of export-import trade, we shall have Rs. 60 crores a year which means Rs. 240 crores for the Plan and then we can very well replace a part of the indirect taxes.

I am merely stating this fact to the House and through this House to the wider public, that no counter-proposals have been made by hon. Member and least of all, by the Leader of the Communist group. He found fault with me for not having any theory. May be. I have no time to adumbrate a theory because I have got a job of work to do.

Commitment to the Plan

We broadly call ourselves socialists. The hon. Member says: You are not socialists. Well if he says that I am not a socialist, he is entitled to have that belief. If he says that there is a mote in my eye and I do not have it, he is entitled to say that I have got a mote in my eye. If he says that every hon. Member has an element of squint in his eye, he is entitled to that opinion because sometimes you reveal a squint and sometimes you do not.

Our socialism is our own variety. And we propose to stick to it He says: there is no theory so far as your socialism is concerned. So, get a prophet. Well, we do not want a prophet in this country. We create idols and we create symbols and then wipe them off. We have no need for a prophet in order that we could implement a socialist economy and bring into being an egalitarian society.

The trouble about him is, he does not know what this socialism means. His socialism is coterminous with authoritarianism and totalitarianism; it is coterminous with the idea that the individual has no part or lot; and there is the apathy of a party which rules over everybody. That is the organisation which he believes in. Of course, I cannot provide a theory similar to what he has in his mind.

He says this is no democracy, but it is a bureaucracy. May I ask him, which Communist country exists in the world which is not run by bureaucracy? What is the use of these words. I should like to tell my hon. friend that the theory which he clings to, that the system to which he is mentally addicted to, which he is supposed to represent in this country and which he wants to be implemented in this country, is nothing but sheer, naked, unadulterated authoritarianism, rich with bureaucracy and no element of democracy. With that I will dismiss the speech of my hon. friend Mr. Dange.

As I said at the beginning, I am very grateful to a number of hon. Members, not only on my side but also on the Opposition, who gave several constructive speeches, some of them I know and some of them I have not had the privilege of knowing. Will hon. Members on my side forgive me if I mention the names of two hon. Members on the opposite? One is an old friend, Mr. B. C. Ghose, who, during the time that he was a member of the Rajya Sabha, always came out with constructive criticism which I found very difficult to resist; either I had to accept or apologise for not accepting it. The other hon. Member is Mr. K. Khadilkar who made a very effective contribution so far as this debate is concerned. Both the hon. Members realise that we are committed to the Plan. Both the hon. Members found that there were some defects in its implementation. Maybe they are right in some respects and wrong in others; but this is a point of view that can be entertained, a point of view that will have to be met and answered, and these hon. Members will have to be satisfied. Therefore, my friends on my side will forgive me when I say that these two hon. Members opposite have materially contributed to raising the level of the debate and to pinpointing on the main purpose of this Budget, namely, that the Plan must be implemented.

Maybe that some hon. Members on my right felt that the burden of the Plan was far too much and, therefore, it has to be cut, it has to be pruned. My hon. friend, Mr. Masani, who is always constructive, had to give up that path merely because of certain inhibitions. He could not get away from the inhibition that the Plan is bad, that by the very nature of its content and the fact that it does require a certain amount of regimentation, voluntary undoubtedly, it cuts across his pet idea of a mixed economy. He does not like it. He says, prune the Plan. The Prime Minister spoke yesterday about the possibilities of pruning the Plan.

Third Plan Target for Steel will be 15 Million Tons

Mr. Masani said something about people being romantic and people being dilettantes. I do not know whom he had in mind. Of course, there are dilettantes and there are romantics. He says, a man who hugs the steel plant is romantic. If he had intended to call me romantic, I may tell him even at my age there can be a little romance, and I am. Fortunately, this romance happens to be in relation to myself and something which is tangible and which has no life, namely, steel plants. I feel romantic about it. Often people have told me, "now that Mr. T. T. Krishnamachari is realising how difficult it is to bring into being three steel plants,

he might give up the idea of the target of 15 million tons by the end of the third Five Year Plan." I hope I will not become a casualty of the budget, as my hon. friends from Madras have mentioned. I am here during the next four years in order to enable me to lay down the target for the third Five Year Plan and I shall stick to the 15 million tons of steel. So far as my being a dilettante is concerned, I am afraid my hon. friend must lay his hand on his heart and find out whether he was saying something about himself. I cannot even claim to be a dilettante nor am I one, nor have I got the mental agility to be a dilettante. But, by and large, what he said was in all good faith. He spoke about Sindbad the Sailor and the Old Man of the Sea. If the Old Man of the Sea is the Plan and I am Sindbad the Sailor, well, I can be even more romantic than what he has suggested. After all, it is good to be Sindbad the Sailor. Sometimes the Old Man of the Sea can be carried, as he said, across the stream to the shore of safety. After all, our country is old, but is not the Old Man of the Sea in the sense that it sits round the neck. It wants to be carried to a stage of progress that will have to be brought about in the country. But I do not think he has materially helped to lighten my burdens or provoked me to such an extent that I should have to reply to him with a certain warmth.

Before I go to the main issue, I shall say a few words in regard to what Acharya Kripalani said. I am glad that the Acharya is here. The trouble with the Acharya is allergy to Finance Ministers, though he is allergic to several other things besides. I should ask his better half to know what it is about. But he is certainly allergic to Finance Ministers. He provoked a predecessor of mine, a very distinguished predecessor of mine, in 1950, to such an extent that there was a story behind it. He told me a story of a mad man who wanted a job and ultimately said he got a job in Government service. And my distinguished predecessor said that the Acharya seemed to be ripe for a job in Government service. I am glad to see that the Acharya is not ripe yet, but the trouble about him is this. May I say, in all humility, to him, a leader of ours, that it is not particularly graceful for him to go and accept the hospitality even in a Government House for which we pay—all of us pay for the Government House being run—and then find fault with the way in which the host has been living, and that it is not true to our tradition. With that, I shall say nothing more about the Acharya.

Acharya Kripalani (Sitamarhi): I must say that it was not at his private expense, but it was at public expense. I have every right to criticise how these things are done.

Mr. T. T. Krishnamachari: The Acharya should not go to such entertainments. He is contributing to wastage of public money.

An Unorthodox Budget

There is one point I would like to say in this connection. Hon. Members have referred to one particular point, namely, the budget speech of mine suffers from a very serious defect in that I have suggested nothing about economy. I understand that my budget is somewhat unorthodox. I may also say that I thought it is not necessary to follow the trodden path in the case of a budget speech of this nature at a time like the present. The fact really was that I wanted to carry the House with me so far as the difficulties that lay ahead of us in implementing the Plan are concerned. Maybe that somebody grunts; maybe that the hon. leader of the Communist Group groaned and sighed. I chose deliberately not to mention this question, because I did not want to divert the attention of the hon. Members of this House. If I had made an omission of a serious nature, I would apologise to the House for it.

But, so far as public expenditure is concerned, I agree that there is waste, and that is why we have checks and counter-checks. If we feel that every person is going to spend the money exactly according to the needs, purely on the production basis of his expenditure, then there would be no need for checks. We need not have an Expenditure Department; we need not have Financial Advisers; we need not have a departmental check; we need not have a Comptroller and Auditor-General. The fact is that when we undertake expenditure in a large way, the danger of wasteful expenditure is there all the time Maybe, that some hon. Members see that there is waste somewhere which is patent to them. Some other hon. Member may see waste somewhere else. Some other hon. Member might think that it is unnecessary to make the expenditure though it is a necessary expenditure from the point of view of the Government and has been correctly incurred and without any wasteful additions to it.

Use of Water in Irrigation Projects

Mention has been made of the utilisation of water in the irrigation projects. It is not that we are unaware of it. In fact, the target laid in the first Plan was 8·5 million acres to be brought under cultivation. That is the irrigated land we expected to get, but in accordance with the figures reported by State Governments in connection with the progress report for 1956-57, the Planning Commission has said that the additional area brought under irrigation is only about four million acres. The realisation of irrigation benefits, therefore, works out roughly to 50 per cent. The shortfall can be attributed to various causes. In fact, I myself have seen,

and have realised some of these causes. Sometimes we do not have a canal or it is not dug quickly.

Now, take a person like Mr. M. Viswesvarayya who happily is still with us. He is the man who conceived one of the biggest projects in India, the Krishnarajasagar Dam, but it was left to his successor 15 or 20 years afterwards to utilise the water, because the first canal that was dug out for irrigation, the Irwin Canal, was during the period of service of Mr. Mirza Ismail, who was the Dewan, long after Mr. Viswesvarayya left his office. Undoubtedly now, today, it has meant an enormous difference in the agricultural economy of Mysore.

I have myself found that in the Tungabhadra Project, canals have been dug to a length of 140 miles on the right bank; the land is there, but there are no people to utilise the land. I am told now that it is better than it was two years back, but there are these gaps. Gaps occur in every human endeavour, but they have got to be watched, and that is why we have the National Development Council, and my hon. colleague the Home Minister has established a Committee on Plan Projects which is going into the question of utilisation of these projects.

So far as I am concerned, during the last eight months we tried to put a brake on expenditure. Some of the hon. Members have said—I think it is Mr. Somani—about loose budgeting. I can tell Mr. Somani that so far as the budgeting this year is concerned, we have collected so many items and they may come back again by way of supplementary grants. I do not think that in such public expenditure, there is a chance of money not being utilised. But, at the same time, I am aware of the fact that with the amounts of Governmental expenditure going up, the exercise that we have to indulge in in regard to putting expenses down has got to be tightened up.

Certain Items of Obligatory Expenditure

I would like to tell the hon. Members that in regard to civil expenditure, there are obligatory expenditures, which means a share of the excise duty payable to States, services, statutory grants, pensions, and so on, which comes to about Rs. 96 crores. In this there can be no economy. Tax collection charges come to Rs. 17 crores on which there could be economy, but it might be misplaced economy. It is a matter to be looked into. It may be that with the new taxes that I am proposing and which the House may approve, there might have to be an addition. Nevertheless it is a matter that wants watching. You have the nation-building services, education, medical health, agriculture, scientific departments, community development, wel-

fare of backward classes, employment exchanges and so on which come to Rs. 179 crores. Obviously we can only see what is the proper utilization at the end; there is no question of checking the number of people employed here because grants are made in respect of the particular project. Then there are the general administration, audit, police, external affairs and tribal areas and these form a sum of Rs. 45 crores. The item that has to be checked and looked into is the civil service and this amounts to Rs. 16 crores; we have already cut it down to the bone. It is necessary to see that they are properly expended. There is then Rs. 24 crores under "Miscellaneous" for mints, stamps, Pondicherry, grants to States, etc., and there is no particular cut there.

In regard to item 2—tax collection charges—administrative charges and civil works, I would like to promise the House that I do propose to take steps to tighten up the present method of control. While we have the services controlled in the Home Ministry—they are now being tightened up—we have also the Organisation and Methods Division in the Cabinet section, and I have on my side an Economy Division which goes into the work of each Ministry. It may be that this particular Division which is ultimately responsible for the number of people employed has to be strengthened. It is my intention, subject to my Colleagues agreeing, to set up an Economy Board within the Ministry—not a committee—which will report, from time to time, to the Cabinet. I realize the need for checking expenditure and extravagance. I would like to assure the House that I have taken very seriously all the suggestions that have been made in this regard and we propose to try and see what we can do and to cut down expenditure to the limits that are possible. At the same time, I would like to say that in a developing economy, all obligations grow and hon. Members themselves want this and that on some other service. It may be that while we cut down some sections, some other sections will grow. I have mentioned in my Budget speech and it was mentioned again by the Prime Minister yesterday, that the Centre is taking greater interest in certain matters affecting the lives of the people like slum dwellers, provision of housing in rural areas and a greater concentration in the rehabilitation of our refugees.

I am sorry that, in the other House, when I mentioned that Rs. 80 crores had been spent on rehabilitation of refugees in Bengal, and that had been wasted, it was somewhat misunderstood. I have no doubt in my mind that we have given them relief and quite a lot of money we have given in addition to relief. But we have not been able to rehabilitate any large portion of them. This is one of our primary duties in the coming months which we have to undertake. So expenditure has to increase in a developing

economy. I quite admit and accept the validity of the charge made: "What have you done in regard to checking expenditure and effecting economy?" Economising in one direction which appeals to one hon. Member may not appeal to another. There are certain exigencies which we cannot forget. An hon. Member asks: "Why do you go in a big car?" If an hon. Member asks 'why', I will mention why. We have sometimes to carry 6 or 7 boxes. Sometimes we do not go all alone. If hon. Members are under the impression that a Minister goes in a staff car, I would say that a Minister goes in a staff car once or twice. I myself go in my staff car with 3 or 4 members of my staff. Then there is the other fact that a small car is not an economical car. A small car goes out of order in two years while big cars last for ten years. These are facts which I place before you. What looks to be economy by one person is not always economical. So, when criticising Government, I would like to tell hon. Members that Government are aware of the fact that needless waste should be cut. Of course, there may be cases when somebody exceeds the limit.

Core of the Plan

Before I come to the rationale of the tax proposals, I would like to mention one aspect of the Plan. Some hon. Members said here yesterday that the Plan must be saved. I said the core of the Plan must be saved. Then I said the hard core of the Plan must be saved. They think this is a diminution of the size of the Plan from time to time. They do not understand that the Plan itself is by and large made of the hard core. The flesh and blood is very little, just enough to cover the bone. If the Plan in the shape of a human being wants to sit on the floor, he will find the floor is touching the bone; the Plan itself is the hard core of the whole of the Plan. My hon. friend Mr. Masani said: "Cut down". Am I to cut down the expenditure of the steel plants? I know my hon. friend Mr. Pande mentioned the steel plants. I would like to take Mr. Pande to the steel plants and convince him that every pie that is being spent is spent taking a long view. I can tell him ten times that needless economy which we make now will entail greater expenditure later on. If we defer the coming into being of the steel plant by one month, we shall lose crores. Sometimes, therefore, you will have to spend a couple of crores in order to accelerate the coming into being of the steel plant. Therefore, my honourable friend must realize that this is the hard core. I cannot shave off anything. There is no flesh in it. Therefore, I cannot drop the steel plants. If we drop the projects and maintain the staff, it adds to the cost of the plant. If hon. Members had turned round and found fault for not accelerating the execution of the project, I would have pleaded guilty.

For some of the projects for which we started the stage of project-making in 1948, if we had accelerated them, we would have saved a lot of money. As mentioned by the Prime Minister, if the steel plant had come in 1948 or 1951, we should certainly have saved a lot of money. If hon. Members find fault with us for not having taken this step earlier, I plead guilty. I do not know if my hon. friend Mr. Masani is correct, when he says, "You cut down the Plan. Yes. But what happens to the Plan if the foreign exchange needs are not made available?" Well, to the extent we have committed ourselves, I have to ge through. Maybe, we can reduce a few things here and there, but it will reduce the size of the Plan very much. Supposing we cut down the amount to be spent on the heavy electrical project and bring down the amount to Rs. 7 crores, instead of Rs. 15 crores which we expect to spend, we cannot make a big saving. Out of Rs. 7 crores, there is a foreign exchange of Rs. 3 crores. We may produce transformers and switchgears to which we gave a high priority rather than other things that the factory is going to make. What you would save in the aggregate would not amount to very much. So, I will take such of those people who tell me to drop the Plan into my confidence and tell them: "You would be doing far more injury to the Exchequer and to the country by this, than if you carry the Plan although with a certain amount of difficulty". Maybe the Plan is wrong: maybe the Plan is right. From the point of view of Mr. Masani our objective is wrong; our planning is wrong; we should not take risks in a mixed economy.

Development of Heavy Industries Necessary

As the Prime Minister said yesterday, if we don't develop our heavy industries, we would be in the same position in which we are placed all these years. We don't have machinery for working even the consumer goods. Are we to be in that state for all time? Undoubtedly, we can give more importance to consumer goods in the Third Five-Year Plan. Even for these things we need big forges, foundries and other big machinery. If we do not do it even at some risk now for having something better for the future, we will only be depending on the vagaries of the monsoon. We will only be depending on foreign countries, over which we have no control, for our export trade. For that purpose, we have to be a little more self-reliant.

We have given up the word 'self-sufficient'. We have to be self-reliant and for that purpose we have to concentrate on certain heavy industries. I quite agree that we should develop consumer industries. I can request my colleague the Commerce Minister to

give licences to all those persons who want to start consumer industries. But I cannot get foreign exchange. Rather, we can use some portion of it on machinery for producing consumer goods. My friend Mr. Masani is a discerning critic and he knows the difficulty in getting foreign exchange. There is really no other choice.

Heavy Industries and Consumer Goods

If you really want this country to produce more consumer goods in the next plan you have to depend on our heavy industries so that we make the machinery for making consumer goods. Therefore, the Plan stands. There may be a few changes here and there, a few items may be dropped; maybe, I may not be able to utilise the bye-products of the steel plants. I cannot put up chemical factories. Some of the things for which we do not have foreign exchange may be dropped, and, in the aggregate, we may get Rs. 100 crores but the result would mean something serious in regard to production of consumer goods in the next plan. I would like to tell hon. members, if my colleague the Minister for Commerce and Industry would permit me, that our dependence on foreign countries is in respect of the raw materials and some semi-manufactured materials for our industries. We have to get rid of the bottlenecks in all these things. There is no justification for anybody telling us to drop these heavy industries. We may save a few crores of rupees. I know that such plans take a longer time and I know that we are short of manpower and there are various other difficulties. But it is imperative, so far as planning is concerned, in an under-developed economy.

Rationale of the Tax Proposals

Now I come to the rationale of the tax proposals. There is no use now thinking of the First Five-Year Plan where we had a comparatively easy course because of the emphasis on agriculture. There we had about Rs. 400 crores of deficit finance. Our balance of payments position was stable. The alternative now is: either you should tax or you should carry on with deficit financing. My hon. friend Mr. Masani was quite right when he said that of the two evils, taxation is an evil which is preferable to deficit financing. I have been laying the greatest emphasis on the evils of deficit financing for the last 7 or 8 months.

There are certain interested parties either in this country or abroad who say that the value of the rupee is dropping. The value of the rupee is not dropping. The rupee is stronger today than many other currencies of the world. It is stronger today

than even the currency of the country from which the first criticism has emanated. I am proud of it; and it shall be my endeavour to the extent of my ability to sustain the value of the rupee at its present level. And that again is the justification for my tax proposals. Therefore, we have to choose the lesser of the two evils. Some hon. Members have said that there will be a rise in prices following the excise duties. May I again tell the hon. members that the rise consequent on the excises has to be very small.

Aim of Monetary Policy Disinflationary

What I have done in regard to monetary policy, in regard to the present monetary system itself, is disinflationary. As usual, in a very good speech, Mrs. Tarkeshwari Sinha said that while these taxes will be all right in a development economy, they are not useful in an under-developed economy. I am afraid the position is the reverse. In a developed economy you have a high order of direct taxation. Where a high order of direct taxation is not possible, it is only indirect taxes that are resorted to. An under-developed economy could not afford to get the money that it gets in a different way. I am afraid it is because of our under-developed economy that we have to think in terms of fractional additions and income from individuals. Dr. Krishnaswamy asked me the question whether taxation would mean more savings. It is a legitimate question. Well, I don't see more savings in the hands of individuals; it will be more savings in the public sector. Whether savings are accumulating or stagnating depends upon the tax-payer, and how he reacts.

He seems to advocate a reduction in investment but he has no positive answer to the question of savings. My hon. friend Mr. B. C. Ghose made some contribution to the debate which is very valuable. He went on to the primary factor which is the sheet anchor of our troubles, namely, the food situation in the first Five-Year Plan; for three years there was a depression, and the prices started dropping before the fifth year.

An honourable Member asked about imports and deferred payments and the question of licensing of capital goods. I think the question was answered by my honourable colleague the Minister for Industry, Mr. Manubhai Shah. I am not sure whether all this will fructify; it might not, it all depends. We can go on with the development of the private sector in this direction only if deferred payment is possible for capital goods.

On the question of taxation, some people have said that I have given incentives to people with higher incomes. The Prime Minister did make a point yesterday that we are trying to turn the direction of taxation. One factor which is certain, so far as the present taxation is concerned, and on which I would like to be emphatic is that direct taxation as it stands today does not allow any room for the expansion of governmental income. If I take the top slab from 93 per cent to 99 per cent I shall get Rs. 2½ crores.

Evasion of Taxes

There was mention of evasion. Of course, there is evasion. Whoever says there is not? In fact, my own estimate of evasion has been higher than that of my predecessor. What are you doing about it? asked Mr. Dange. Well, we find, since evasion is there, and as the honourable Member Mr. Dange knows that the evader sometimes uses the instrument of law for purposes of avoiding payment, we have to see that the tax structure itself is changed so that we catch these people at many points. And that is the main basis of the direct tax proposals I have made. I do not say that I have borrowed it entirely from Mr. Kaldor. I had the benefit of a number of discussions with Mr. Kaldor; I had the benefit of reading some of his notes which ultimately formed the booklet which we have given to this hon. House. I had to tell Mr. Kaldor that no Government will go as far as he wants, unless it is perfectly sure that the tax income is going to be increased by Rs. 150 crores. I cannot go to the extent of 140 naye paise.

The fact is that Mr. Kaldor is not inhibited by responsibility. Therefore, while I am grateful to the ideas that have been given by the Taxation Enquiry Commission, by Mr. Kaldor and by a number of officials that we have and my expert advisers, the ultimate responsibility for deciding on the particular course has to be that of Government and I have to lead in that matter and get my colleagues to examine the proposals and accept or reject them, as the case may be. All that I have done now is to give a turn to the taxes.

I have got a statement here in which I have made some academic exercises. I do not want hon. Members who represent the private sector to be afraid. I have taken about 21 cases where we know what is the earned income and what is the unearned income of the top slabs. We tried to assess, by our own guess work, what will be the wealth they have from the unearned income they get. We found that in four cases they will benefit from the present rate of taxation of wealth, expenditure and income tax to a small extent. In the total income of about Rs. 17 lakhs to Rs. 18 lakhs, they will

get about Rs. 3,000 to Rs. 4,000. In about nine cases they have hit the ceiling and have gone beyond that. I do not say there is complete validity on this, because it is only an intellectual exercise based on assumption. I do not say they would not happen. The idea really is that by and large, we should check evasion because we are taxing people who have property from various angles and it is not a question of the expenditure tax yielding more. If the expenditure tax does not yield more it is good because people do not expend. The money goes into savings. If the expenditure tax yields more, it means it is good.

Taxation Proposals, an Integrated Scheme

One point that I would like to reiterate here in connection with this scheme of taxation is that you must take it as a whole. If the House says we do not want you to lower the taxable limit of income-tax, I have to gear up the wealth tax and expenditure tax and also increase the rate of surcharge on unearned incomes. Maybe, later on when we find that a greater income accrues and produces not merely Rs. 5 crores, but Rs. 25 crores, we might lower it by 5 or 7 per cent, and probably take it off the unearned incomes.

This is a thing that the Finance Minister of the time like an architect goes on adding or subtracting, as the case may be. He wants to produce an integrated picture. Like a sculptor, he has to make an attempt with a block and until he works on it he will not be able to tell you the exact figure, the precise delineation of the various features of that particular sculpture.

Therefore, I beg to say that the House must take it as a whole so far as direct taxation is concerned, and that leads me on to a consideration of some of the criticisms made, some of which I felt were valid and therefore merited careful consideration. I do recollect the various points raised by hon. Members. I have placed my difficulties before my colleagues. We had a discussion and since that time I had bestowed some thought over the matter, I may even say, very serious thought as to how best we can do something in order that some portion of the burden is taken away. If the total amount of money is reduced, then the Plan goes, or I have to indulge in deficit financing. Consistent with the fears I have been voicing, consistent with our obligations to implement the Plan, consistent with our anxiety to keep the economy in proper trim, I have been exercising my mind on this matter.

The hon. the Prime Minister made a point yesterday that the House should not lose sight of the fact that we have set apart Rs. 25 crores for which a provision has been made in the Budget, as a fund for purposes of subsidising foodgrains. It is not a small amount; but I am not saying the limit of the assistance which Government will give in order to keep foodgrain prices at a certain level is more or less coterminous with the amount that I have mentioned. It is not. If the needs of the situation want more, we will have to find the money. If we spend less, I will be very grateful. With this background, I want hon. Members to realise my difficulties in this matter.

Lower Limit of Income-Tax

The question of this lower limit of income-tax was prominently mentioned by hon. Members. Well, as the hon. the Prime Minister said yesterday, we are convinced that income-tax must be broad-based. We realise that we should not take away from a person who gets an income of Rs. 3,000 to Rs. 3,200 the small amount of money that he is getting. We nevertheless feel that it is best to take the step of broad-basing our income-tax structure. I got a telegram the other day from some friends in the Madras Secretariat Association who feel grateful that I, along with my colleagues, in the Centre, have been able to provide a little addition to their income, and they say "You are taking away by this income-tax provision what has been given". Well, it touched me. I am not impervious to sentiment—it touched me. But still, even though something has to be done, I do not think we should retrace our steps. But I propose to make a small change.

Relief on Taxation Proposals

Marriage allowances: In order to provide relief to married individuals with children, I propose to add to the marriage allowance already provided, a children's allowance of Rs. 300 per child, subject to a maximum of Rs. 600. This allowance will, however, not be admissible to persons with incomes above Rs. 20,000 in whose case I propose to withdraw also the marriage allowance of Rs. 2,000.

Wealth and Expenditure taxes: In regard to wealth and expenditure taxes, I have already indicated my intention to ask the House to refer the Bills to one or two Select Committees, as the

House might choose. There would, therefore, be further opportunity to discuss the various details of these Bills. Meanwhile, I may as well state that it is my intention to ask the Select Committee to agree to giving a "wealth tax holiday" for the first five years from the date of incorporation of a company on the value of the assets pertaining to an industrial undertaking of a new company, provided that the undertaking is not formed by the splitting up or the reconstruction of business already in existence or by the transfer to a new business of buildings, machinery and plant already used in an existing business. I also propose that investments of one company in another company, in what is called inter-corporate existence, should not be included for the purpose of wealth tax. This is in tune with the provisions of section 62 of the Income-tax Amendment Act which amendment was made three or four years ago at my instance.

Hon. Members have pointed out an incongruity in the proviso to clause 3 of the Expenditure Tax Bill. It is not as if it did not strike me at the time the draft was passed. I do not want my hon. friend Mr. Dange to say, "Oh, this Minister is easy-going". The difficulty was in prescribing the limit. We felt that the ultimate determination of the limit should be left to the Select Committee. It is more than likely that several provisions of this Bill would need revision: (a) in the direction of tightening the provisions and (b) in allowing, in some cases, some elasticity for a period of time, so that particular individuals might change over from their normal expenditure limits to the new ones, of course, subject to the fact that there will be saving, and they can prove that they have been incurring this expenditure; may be in the case of some people who have retainers to whom money has to be paid, that has to be excluded from the expenditure. Some people have mentioned a large increase in medical bills. It will be for the Select Committee to consider all these matters, and I propose to leave it to the Select Committee stage.

Postal Rate

The question of the postcard has exercised hon. Members considerably. My colleague the Minister of Communications and Transport and I have been discussing this matter for some time, and the other Members of the Cabinet have also exercised their thought on this matter. My colleague, the Minister of Communications has

authorised me to make certain changes. My original proposals, amongst others, were:—

(a) to raise the existing rates of 5 nP for single and 10 nP for reply-paid postcards to 6 nP and 12 nP, respectively; and

On local postcards from 3 nP to 4 nP for single postcards and from 6 nP to 8 nP for reply-paid cards, respectively; and

(b) to increase the rates on parcels from the existing level of 50 nP for every forty tolas or fraction thereof to 60 nP for the first forty tolas or fraction thereof and 50 nP. for every additional forty tolas after the first forty tolas.

It is now proposed to drop both these proposals regarding increase in the rates of postcards and parcels. But a compensating levy is proposed to be made. The initial slab of weight for inland letters, including business reply envelopes, which is one tola, would be raised to 1½ tolas. And the rates for such inland letters will be raised from 13 nP to 15 nP. The users of this particular type of communication being very largely business houses, they have both an advantage and a slight disadvantage. The additional weight will also be computed in 1½ tolas instead of one tola as at present; and the rate will be increased from 6 nP for every additional tola to 10 nP for every additional 1½ tolas.

Railway Fare Tax

As regards railway fares, my hon. colleague the Railway Minister, speaking here the other day, promised consideration of this matter. It is therefore proposed to exempt the first fifteen miles from the operation of this tax. We are keeping the tax on the other fifteen miles for the reason that unless there is this slab, evasion is a possibility. An hon. friend mentioned to me rates in hill areas. We had a discussion—my colleague and myself and also the officers—and we found that exemption of hill areas from this small tax might be administratively very difficult. But my colleague has promised that he will look into the charges for these hill areas and revise them adequately to see that this increase does not come into operation.

Excise Duties

In regard to excise duties, I have, as I said, very carefully heard the argument put forward by hon. Members. And, as I have said again, we have very carefully considered these excise duties Though it might look that this has contributed materially to the increasing cost of living, in actual fact, their contribution is infinitesimal as it is so widespread and, therefore, in time should not cause any hardship.

We have, again, gone through the lists, as I said. I have already withdrawn kerosene, both from excise duty—which is the primary thing—and from the customs duty as well.

As regards motor spirit and diesel oil, in spite of the fact that a case was made out by hon. Members that it is going to add to the cost of transport, where the cost of transport is maintained at low levels, it will continue to be maintained at low levels; where it is high, they can cushion it; if they want to make it higher, nothing can prevent them from doing so. There are very many areas where the cost of transport is maintained, even by private operators, at six pies per mile, the initial thing being nine pies or one anna as the case may be, where we pay two annas in some cases. It does not depend upon the actual cost of petrol, but it depends upon the cost of the operation and the nature of traffic. Therefore, I think it is not correct to say that this will, by itself, contribute to a rise in bus fares.

Much has been said of cement and steel. Hon. Members are not perhaps aware that the present prices of steel happen to be controlled by a formula which enables Government to absorb the increased cost of steel that is imported, and the present price does not represent the price that we pay to the manufacturers of this country. It is quite possible for me not to have done anything, but I have allowed my colleague the Minister of Steel, Mines and Fuel administratively to raise this amount.

The same thing obtains with regard to cement. The State Trading Corporation had fixed a price of Rs. 102-8-0 per ton for cement. But that is not the cost. The cost that is paid to the producer is different. The price was raised because we had to cushion imports which were costing more. There is today an element there which can, if necessary, be sacrificed. I am not thinking of sacrifice for this reason. I am convinced in my mind that there is a shortage of supply, and

the demand being very great, there is a black market. Our supplies are now in the region of about 5 million tons. Our demand is of the order of 15 million tons. We had found that in actual fact, the price per bag of cement is Rs. 8 to 10. I cannot understand hon. Members saying that this addition of 75 naye paise to the price by way of duty is really going to hurt the common man.

So far as sugar is concerned, we have stated why we have raised the price of sugar. Consumption of sugar runs very nearly close to 20 lakh tons. It is running very high. I agree it is good. Hon. Members have said that you need carbohydrates in a country where the calorific value of the food taken is very low. But, there is still one thing. The margin between the factory price and the distribution price is high. Knowing full well that the factory prices very almost from Rs. 22 to 30, we need this duty in order to be able to export. Exports happen to be imperative. If I do not get something from an item of food is only a near necessity, how can I subsidise food myself? Therefore, we have felt that we cannot alter this.

As regards matches, the incidence of duty is only 1 naya paisa per match box. Actually the price of a match box containing 40 should really be a fraction over 3 naye paise. It will amount to four, had it not been for the fact that we had an arrangement through one big producer to keep it at three naye paise. The duties have been carefully worked out so as to bring the retail prices to whole naye paise. If I make any small deduction, it would benefit nobody except the producer. I am aware that we have a graded system of duty in regard to B, C, D, class factories. I have been personally interested in the C and D class factories, some of which we have brought into being, during the last three or four years on a co-operative basis. If it happens that the amount of duty that we have fixed affects them adversely, we can lower the duty administratively.

As regards tobacco, hon. Members would realise that the increase is not big. Every country in the world depends upon tobacco for purposes of incomes. My impression is, the grievance, such as it is, is more from the trade than from the consumer or grower. Because, in fact, the grower can keep whatever he wants for his personal consumption. In fact he cannot really keep as much as the limit. The House is aware that we are changing over from the "capability test" to the "physical form". It is understandable that difficulties will arise in certain cases on account of a change of this nature. It has been represented that as a result of this change certain varieties

of tobacco, after processing, will become assessable to a higher rate of duty even though hitherto they are being assessed at the lower rate. I am having this matter examined, and if the difficulties that are pointed out are genuine, it should be possible to remedy them by administrative action. I think honourable Members will not say that I have infringed the privileges of the House by taking administrative action to help the consumer and trade, if I do so.

As regards paper, the profits that are made by the industry are very high. The cost of paper production varies from Rs. 760 or Rs. 780 per ton to Rs. 900 per ton. Until about four months back, before our new import policy came into operation, the selling price approximated to Rs. 1300 per ton. This again has risen for no reason whatsoever. I can tell honourable Members that if the industry wants to cushion this additional duty, they can because the industry depends on the law of supply and demand. Even if I had not imposed the duty or withdrawn the duty, there is no certainty that the industry will keep to the price, so long as there is shortage of supply particularly by reason of the fact that we have stopped imports. There is no reason why the incidence of duty should not largely, if not wholly, be absorbed by the industry.

The increase in the duty on oil is 2 naye paise per pound and one rupee and sixty five naye paise per maund. The price today has gone up by Rs. 4. Why? The reason is, today, there is shortage of supply. Prices are bound to create difficulties unless the supply position is remedied. Of course, I see in the papers today that the groundnut market has fallen. I wish it falls a little more. If it does, I do not think 2 naye paise per pound is really going to affect much. Honourable Members also know that, so far as ghanis are concerned, and also know certain types of rotary presses, we exempt them from duty. May be the rotary presses will have to be brought in. Certainly ghanis are exempt. The price in the villages is dependant on several other factors. I do not think it would really benefit the public by reducing the duty on oil.

That brings me to tea and coffee. Both these items affect largely the urban population who are vocal. It is easy to get persons to join a hartal if a tea shop has added one anna or six naye paise for a cup of tea. I realise the incidence of duty here is fractional so far as tea is concerned, and not very much, so far as coffee is concerned. The total return that we get out of this is Rs. 325 lakhs. Still, there is the large urban population which is amenable to the influence of my friend, the Leader of the Communist Group. My hon. friend says, what can I do. We had it in Calcutta. You can have a hartal in any place. If any non-compliance with a hartal is followed by

consequences which are far more serious than following a hartal, if my hon. friend thinks that we do not know about it, I think he does less than justice even to the meagre intelligence that I possess.

This year, there has been a record crop in coffee. I am told that it is over 40,000 tons. It used to be 27, 28 or 29,000 tons until I was in charge of that portfolio. I envy my hon. colleague that coffee has spurted up. Even in tea, it was mentioned that the supply is slightly above normal. Therefore, Government have decided to withdraw entirely the increases proposed in the rates of excise duty on coffee and tea and I hope hon. Members and their friends will not pay anything more for their cups of coffee and tea.

EFFECT OF THE RELIEFS AND CONCESSIONS

The net effect of these changes will be that the yield of the proposals made in the budget will be reduced by not an insignificant sum of Rs. 578 lakhs on an annual basis and Rs. 505 lakhs for the current year. Wherefrom should I get the money, I shall wait for hon. Members to tell me.

I am very grateful to hon. Members for having listened to me with great patience. I hope they will appreciate that Government is not altogether un-responsive to public sentiment expressed both in the House and outside.

V

FOREIGN EXCHANGE & THE PLAN*

To begin with, I think I will take the House back to a statement made by my colleague, the Minister of Commerce and Industry, the other day, in his reply to the debate on the demands of his Ministry. He said that I would take up from where he left this question of the position of foreign exchange as it is today, and also deal with the sins of commission and omission on the part of Government during the last five years. In doing so, I am conscious of the fact that I was in charge of Commerce and Industry for $4\frac{1}{2}$ years and along with the then Finance Minister I had a very large responsibility in shaping policies.

The foreign exchange position cannot be altogether divorced from the Plan. In fact, today if we have no Plan, no industrial development, no planned expenditure in several directions, the foreign exchange position will not cause us any serious difficulty at all; because it will be possible for any person who is in charge of Commerce and Industry to break even with a measure of control on exports and imports if there are no planned demands on the Ministry of Commerce and Industry. So, one cannot fail to make some reference to the Plan. The problem really, so far as foreign exchange is concerned, is in regard to one of the aspects of the resources of the Plan, and it cannot be seriously divorced from questions of domestic inflation with which the balance of payments deficit is intimately connected.

I placed before the House when I presented the Budget an analysis of the economic situation. There is no doubt that we are passing through a very difficult phase. The Second Plan is an exacting one. Let hon. Members make no mistake about it, let there be no illusions about it. It can be seen through only if the maximum effort is forthcoming from practically all sections of the community. But, as I said, not merely at the time when I introduced the Budget but also on previous occasions, I believe the Plan can be seen through. Hon. Members may call me an optimist; perhaps I am one; but I must say that the order of effort called for is quite different from what was required by the First Plan. In fact, when I was reading and re-reading the Plan in regard to foreign exchange, I found a reference made there in regard to the foreign exchange estimates made in the First Plan and the fact that the amount of sterling balances which it was expected would be used

up, was not used up. Therefore, when I say that the Plan can be seen through in the present context, I am referring to the fundamentals of the Plan, the more crucial programmes in the Plan, and I do not mean that everything that is in the Plan can be seen through. As I have said before, the resources position is a difficult one and the drain on our foreign exchange reserves necessitates a strict order of priorities in terms of which we have to proceed. Therefore, some kind of pruning is implicit in all this. You call it rephasing, you call it re-allocation of priorities, but what it really means is that we must concentrate on the most essential things. I have used the phrase "the core of the Plan", namely, the steel projects, the mining programme, and related power projects and transport. These matters are now being examined by the Planning Commission and the various Ministries. In the meantime, we are proceeding on the basis that we do not sanction new projects which are not in the core of the Plan or for which foreign exchange assistance is not forthcoming.

The next two years, I am afraid, are going to be very difficult years, and very much will depend on the amount and timeliness of the supplementary resources we can raise, perhaps from abroad. Therefore, I would like to say that this crisis which many say is a crisis of confidence and various other things which are less complimentary, is really a crisis of development—certainly not a crisis of stagnation, certainly not a crisis of confidence, because I think we feel that we can see it through.

It is in this connection that some hon. Members did some retrospection in regard to our foreign exchange policy, especially the import policy. Retrospection undoubtedly has its place in life. If there is no retrospective thinking, I am afraid, a person will not even be intelligent, but it is never a substitute for forward action. It is not my desire, nor do I think it necessary, to offer an apology for the sins of commission and omission that might be attributed to any member of Government or to Government as a whole. The record is there for any one to see—only he has got to see it properly. You should not take over a particular portion and say: here is something which has been done. The record is there for any one to see, and I would very humbly submit to this House that it is a promising record so far as the overall picture is concerned. The country has made steady progress over the last few years. My young colleague, the Minister of Industry, the other day categorised the many developments that we have made, the many strides that we have taken in the industrial field. May I take it that the Government can take some credit for what has happened?

The production potential has been strengthened, new developments have been initiated for which not merely the future generation

but this generation will be grateful. The path of development is not always smooth, and that is what is now in dispute. During the last few months, we have taken various steps to correct the domestic inflationary trend. We have taken some steps even to arrest the drain on our foreign exchange resources, and this is the most serious problem that we have to face.

At the end of March, 1956, our sterling balances were about Rs. 746 crores. I would like hon. Members also to realise that the Minister for Commerce and Industry at that time was a person called T. T. Krishnamachari. They have now come down to Rs. 393 crores. We have thus spent Rs. 353 crores of our reserves and have, in addition, utilised the IMF credit of Rs. 95 crores. This adverse position in the balance of payments has, I must stress, been caused essentially by heavy development imports.

The Reserve Bank recently published some relevant figures which show that the payments for imports in 1956-57 were Rs. 320 crores higher than in 1955-56. Nobody disputes it. It is important to see precisely what these higher imports were—imports of machinery, vehicles, iron and steel and other metals in 1956-57 and of food by Rs. 73 crores. These two items total Rs. 216 crores. In fact we have made several calculations in regard to these imports. I have taken 13 articles of producer goods which, over a period of years from 1952-53 to 1955-56, have been averaging somewhere about Rs. 250 crores. In 1956-57, during the period from April to December it was Rs. 290 crores, and if you include paper and paste-board, some of which goes into manufacture, motor vehicles and spare parts, motor vehicles in CKD conditions and spare parts, which are also to some extent capital goods, not completely consumer goods, that will add another Rs. 40 crores. This makes a total of about Rs. 324 crores of imports of what you might call essential goods, very essential goods, over a period of eight months as against an average of Rs. 250 crores during the previous four years. I think this tempo has been stepped up during the last three months rather than retarded. The net increase which the Reserve Bank figures show in respect of items like raw cotton, raw jute, oils, chemicals, drugs, medicines etc. is not very much; it is somewhere about Rs. 20 crores. Imports of cotton and jute are on the low side. But the decreases must be set off against increase under oils. The increase under chemicals is Rs. 9 crores, and under electrical goods and other apparatus Rs. 12 crores. One may draw one's own inferences about the margin of squeezibility in these respects, but the margin cannot, on any reckoning, be large.

There is then the residual increase of Rs. 92 crores to explain. The Reserve Bank's statement of these items is not by any means

* Reply to the debate on Demands for Grants for the Finance Ministry in the Lok Sabha (House of the People) on August 24, 1957.

exhaustive. Of these Rs. 92 crores, Rs. 50 crores were Government imports, other than food and machinery. The balance of Rs. 40 crores is accounted for by a large number of assorted items, some of which are raw materials not listed as such, and only a few are consumer goods. The real point about it is this. Even on the question of consumer goods, people might think they are toys or something of that nature. People seem to think that consumer goods are what you find in the shops in Connaught Circus, some of which, according to my hon. colleague, the other day, are smuggled. No. It means essential consumer goods like medicines. In fact, recently I had a letter from a very important person who is a medical man, complaining against our freezing practically all imports for three months. He says the question of medicine is going to be a very serious thing. We are importing somewhere about Rs. 15 to 17 crores worth of medicines. The cost of the medicines is now going up. And there are quite a number of essential items in these consumer goods. One hon. friend may think that infant foods are not essential consumer goods, and we might even stop their imports. But they are essential consumer goods in a country like this. I would like to tell my friend that it is not the well-to-do man that buys the imported infant foods. It is the poor man that buys it, the man who probably gets Rs. 150 or Rs. 120. He is unable to find milk for his child, sustenance for his child, and he feeds the child sometimes, for a period of time, when the child is ill or recovering from illness on imported infant foods. I have worked on this business for four-and-a half years, and I can tell you that if you squeeze it, you cannot squeeze it to Rs. 28 crores in a year. It is not possible.

If my hon. friend quotes the Reserve Bank and says that it is something outside machinery, I shall deal with that point presently. The reference that I am going to make in regard to the increase in the industrial potential in the country, in regard to the phenomenal increase in industrial production as a consequence, makes the viability as regards imports less and less, so far as we are concerned. We become more and more vulnerable to imports, because we have to import the raw materials for our industry. And that adds Rs. 146 crores.

But I would like to say this to the House. I very humbly submit, and as I said, my experience warrants my being able to say it with confidence, that—let there be no mistake about it—the import policy we have followed over the First Plan period and are following at present is geared only to one purpose, namely to help to accelerate the process of development. We have not hesitated to liberalise imports, when such liberalisation was found to be necessary, for increasing domestic production and investment, and even for purposes

of raising the domestic quality of production. At the same time, we always kept in mind the need for keeping down non-essential imports. I do not wish to bore the House with details of the import policy during the last five years. But hon. Members would, I hope, permit me to point out a few salient points of policy. Hon. Members speak about the Open General Licence. They seem to think that O.G.L. is a licence for people to import whatever goods they like. No, it is not so, not since 1952. The open general licence during 1952 has been there, because we had a definite purpose behind it; it may be goods which are raw materials for industries, which people will have to import, and where they will not, because there is no period of stringency, over-import or stock pile. In 1953, we removed 20 items from the soft currency area and the general area Open General Licence. In 1954, there was no major change in the O.G.L. But we added a few items to it like conditioned sulphur—hon. Members do not think it is a consumer commodity—and roller bearings, which are very necessary for industry. In 1955, certain items with an indigenous industry angle, like bandsaws and borax, were removed from the Open General Licence. We followed it up in 1956, where 26 items were removed from the dollar Open General Licence and 31 from the soft currency Open General Licence.

In respect of the licensing policy in 1953, Government decided to follow a more liberal policy in respect of raw materials, including semi-manufactures required for industrial use, so that adequate stocks could be available in the country, and in particlular, to import more liberally commodities whose imports had been severely restricted in the latter half of 1952, except when the restrictions were meant to help indigenous production. This liberalisation was also to extend to essential categories of consumer goods, and in a comparatively small way, also to some items totally banned or very much restricted earlier. The essential criterion was to develop indigenous production. In administering these decisions, we restored cuts on imports partially and liberalised adequately quotas for machinery, industrial raw materials and certain specific items of consumer goods like species and fruits. In 1954, we introduced liberal licencing and included new items like photographic goods, palm oil, brass tubes and sheets, copper pipes, etc. In the latter half of 1954, as a sequel to the tariff amendment policy, quotas were increased in respect of certain items where import duties had been considerably enhanced. During the period January—June 1955, we extended the liberal licensing scheme to cover a hundred items. During the second half of 1955, while established importers' quotas were reduced for a number of items, the actual users' list was extended. During the first half of 1956, quotas were increased for some 20 items, while at the same time 13 were removed from the liberal licensing system, and quotas were reduced for 27 items. We tried to keep the needs

of the Second Five-Year Plan in view, and restrictions were imposed on the import of a large number of consumer goods, while items relating to machinery and spare parts were somewhat liberalised.

If one sees the figures of licensing, one will certainly understand that whereas established importers' quotas have continued at a fairly steady level over the four or five licensing periods prior to 1956, there has been a progressive increase in the licensing of capital goods, industrial raw materials and iron and steel.

In the conduct of Government and particularly of its economic affairs, anyone who has gone into the history of nations can easily see that one cannot afford to lay down dogmas or to work out dogmas. That is the way of economic atrophy, perhaps even of extinction. In an expanding and developing economy, one cannot at any moment say 'I will import no more,' or 'I will only import such and such commodities'. Developed or under-developed, every economy bears within it a balance of stresses and strains, and the measure of good stewardship lies in the success one has in adjusting the fresh impacts of changes to the balance that subsisted in the economy.

Under-developed India has to develop by industrialising. One does not industrialise by cutting out all imports or even by cutting out all consumer imports. We have to import capital equipment and a variety of semi-manufactured goods and raw materials. Imports of raw materials for scheduled industries had risen from Rs. 6-7 crores in July—December 1953 to Rs. 33·3 crores in January—July 1957—only the scheduled industries, that is, actual users of licences. Imports of caustic soda went up by 20 per cent. between 1951-1952 and 1956-57, notwithstanding an increase in domestic manufacture. In the same period, imports of copper more than quadrupled and of sulphur nearly doubled. All this is evidence of the growing industrial economy. We had also to cater to consumer goods where we could not indigenously produce or attempt to produce. Of course, consumer imports remained on an even keel and even showed a downward trend, as was pointed out by my hon. colleague, the Commerce and Industry Minister.

To promote local production, we thus readjusted to the extent possible the import schedules and gave protection to a number of important industries. Massive protection to indigenous industry by steep increases in duties necessitated efforts to keep down local prices. The liberalisation of imports of goods bearing a high import duty follows as a consequence. Both to support internal production and to maintain our foreign exchange policy we liberalised our export policy in industries where domestic output had expanded so as to acquire new markets and also to continue and develop our traditional markets.

The success of these measures is proved by the fact that our sterling balances which stood at Rs. 687·17 crores in May 1952—I mention that date because it has a significance—rose in December that year to Rs. 707·4 crores; in June next year they were Rs. 713 crores, in December 1953, Rs. 724 crores, in June 1954 Rs. 744 crores, in December 1954, Rs. 733 crores, in June 1955, Rs. 716 crores after allowing for Rs. 12 crores repaid to the International Monetary Fund, in December 1955, Rs. 738 crores, after allowing for a further payment of Rs. 7 crores to the IMF, in January 1956, the balance was Rs. 742 crores, and in March 1956, Rs. 748 crores. Thus, between May 1952 and March 1956, there has been a steady improvement of nearly Rs. 60 crores in our sterling balances. This, together with the fact that essential imports have been encouraged and had resulted in a buoyant as well as stable well-balanced economy, ought to point to a moral. The moral is certainly that people should look to the facts before they criticise.

Hon. Members who are critics of our commercial policy must also bear in mind one factor. In the long run we can build our trade position in the world not merely by denying ourselves what we need by way of imports but by developing ourselves into a position where we can export more and more manufactured goods. This requires, as a first step, encouragement of domestic industrial production, and, as a second step, large imports of raw materials and components. I am repeating this *ad nauseum* because that is a fact that is always lost sight of. I may humbly claim that altogether the commercial policy followed by this Government since 1952 has served the development of the country well. It has given the economy a good start, and until recently at any rate, it kept our balance of payments in very good shape.

I do not wish to minimise either the seriousness of the situation, of which the imbalance that has recently developed in our external account is an index or indeed the magnitude of the task that lies ahead of us over the rest of the Plan period. The difficulties in regard to foreign exchange resources were recognised and even emphasised in the Plan. I would like hon. Members—I do not want to trouble them by reading passages—to read pages 94 to 105 of the Plan. The planners have not hidden any facts. They have highlighted those facts in our economy which show strength, but they have also shown that there is a gap. That gap is of the order of Rs. 1,100 crores. They estimated that Rs. 200 crores could be drawn from the sterling balances. Therefore, there is an unbridged gap of Rs. 900 crores. I would invite hon. Members to read again this particular chapter, because I think this subject will recur. Various factors had actually added to the magnitude of our difficulties. Some of the Plan provisions were themselves inadequate. Prices of many

of our imports had gone up. A ten per cent. deterioration in the terms of trade will make a further addition to the imbalance of Rs. 80 crores. To add to these, we have been forced to import more foodgrains and to spend considerably larger sums on defence.

Finally, investment in the private sector has been higher than was initially expected. This factor, of course, is not an unmitigated evil. The Plan assumed that the development in the private sector would be more or less on an even basis. And so far as the departments of the Government of India are concerned, they are dealing with five-year targets; they are not dealing with annual targets, because many industries take five years to start. To that extent, the strain on our balance of payments would be less in subsequent years because the industries have imported this machinery now and it is perhaps possible for us even to put the lid on for some time without any serious detriment either to the tempo of our development or to the employment potential. But you cannot do it for all time.

The House is aware of the steps we have taken to correct the imbalance in our payments position. As a first step in this direction, we centralised foreign exchange control during the second half of 1956. All Ministries and State Governments were informed that the strictest scrutiny would be applied to all proposals involving expenditure of foreign exchange. Even hon. Members who want to go abroad will find that their demands are cut down very severely and they are not permitted to go unless they have a good reason. Steps have also been taken to reduce expenditure of foreign exchange on invisibles. The import policy for the period January—June 1957 provided for a reduction in quotas on a number of items, many of them partly essential and quite a number of them non-essential. Importers of capital goods were advised to explore ways and means of reducing their immediate foreign exchange payments to the minimum by trying to obtain foreign investments or by arranging imports on deferred payment basis. We had said that the first payment must start in 1959; we have now made it 1960.

In view of the continued difficulty in the foreign exchange situation, it was decided to impose a virtual freeze on fresh foreign exchange commitments during the three months, July—September 1957. Licences were issued only to actual users on a very restricted basis for imported raw materials and essential items needed to maintain the economy of the country. Capital goods licences for new schemes, both in the public and private sectors, are issued only on deferred payments or on a foreign participation basis. The OGLs have been withdrawn except for certain small items like fruits and fresh vegetables from Pakistan.

Simultaneously, every effort is being made to promote exports. This, I must admit, is a difficult task. The degree of success we can attain does not depend only on what we do at our end; it is conditioned also by factors outside our control. There is the further dilemma that the more we export, the greater is the strain we cause on domestic supplies and prices. As my hon. colleague, the Commerce and Industry Minister, said the other day, we can export groundnut oil. But we are not doing it because of its impact on internal prices. It is the intention of Government to exert themselves to the utmost to step up exports, wherever possible. The House will also remember that in framing the Budget proposals, I have kept prominently in view the objective of export promotion. The measures that we have taken are quite stringent and we propose to keep a very tight hold on our imports as long as necessary.

Unfortunately, I must bring to the attention of this House one fact. With the utmost effort on our part, it will not be possible to eliminate the gap in our balance of payments for the next year or two without a sizeable inflow of resources from outside. For a time we shall necessarily have to rely on our resources for meeting our urgent needs. But the requirements of the Plan or even of the core of the Plan are such that we must make every effort to secure external finance. In accepting a Plan with a foreign exchange gap of this magnitude, to which I referred a little while ago, I have again to repeat that, admittedly, we run certain risks. We did this because we felt that without an effort on the scale envisaged in the Plan, our economy cannot be put along a steadily progressive course. When Parliament adopted the Second Plan, there was a foreign exchange gap and, as I pointed out, the gap was of the order of Rs. 900 crores.

A journalist abroad, interested in India, recently asked one of our ambassadors the question whether by adopting a Plan with such a foreign exchange gap, we were not also automatically taking on ourselves a built-in-foreign exchange crisis. That question has some substance in it. But, a reply to a question of that nature must necessarily come from the framers of the Plan. Speaking in this House, on the 26th of May, 1956, my distinguished predecessor said:

> "The foreign exchange gap, hon. Members know, is Rs. 1,100 crores and we think that Rs. 200 crores can be used from the accumulated Sterling Balances. Therefore, Rs. 900 crores has to be secured by way of net inflow of resources from abroad. There is this possibility. If we increase or improve our agricultural production to the extent to which it is not needed for consumption, it might also help us either to reduce our imports or to earn some money by way of export. The other methods

> are given there—loans from international institutions, loans from the general markets of the world, grants from international institutions, bankers' credit and so on and so forth. The only item in regard to which there is always a doctrinaire difference between themselves and some of the hon. Members opposite is about foreign investment......The figure that we have taken is not a very large one. It compares favourably with the figure of foreign investment which has been attracted to this country in the last seven years. I think it was about Rs. 130 crores."

One cannot say that my predecessor did not mention this—it was mentioned by him—nor was it in our conception that difficulties would not arise. There were thus many uncertainties in the initial picture. Nevertheless, Parliament adopted the Plan. It undertook the risk. I am only mentioning to the House that the House undertook the risk and that risk was largely that we may not be able to close that gap without a considerable sacrifice and hardship to the people. Since then many things have happened. Defence payments in foreign exchange have vastly increased. World costs have sharply risen and various extraneous factors like the Suez Crisis have had their effect. We had to find more funds for oil development and for key projects, immanent but not fully provided for in the scheme of the Second Plan. The Government had put these matters before Parliament at every stage.

VI

TAXATION AND MONETARY POLICY*

I have listened to the discussions on the Finance Bill yesterday and in the course of this morning. I cannot say that I have found many points on which to offer any detailed comments or explanations. I am rather disturbed to find that in spite of what has been said by me on the floor of this House while presenting the budget and on later occasions, there is still insufficient appreciation of the taxation policy underlying the budget. I, therefore, propose to make another attempt to set forth my view of the role of taxation in development and of the need for the kind of taxation I have proposed in the context of the present economic situation. Some reference has been made to monetary and credit policy in the discussion on the Finance Ministry. I shall deal with this aspect also. One or two Hon. Members spoke again about the foreign exchange situation and the Plan. I dwelt at length on the foreign exchange situation only recently, but I shall again place before the House our approach to the Plan and to the problems thrown up by its implementation.

May I, first of all, deal with some of the points raised by Mr. Minoo Masani?

Mr. Minoo Masani said that the taxation proposals had created a feeling of disquiet and apprehension. I have taken every opportunity on the floor of the House—and elsewhere—to explain the rationale of my tax proposals, and I am prepared to go over the ground again, if necessary. But, it is difficult to convince a person if he is resolved not to be convinced. Mr. Masani thinks that all this taxation has become necessary because the Plan is too ambitious. This is not a correct reading of the situation. Whether the Plan is big and getting bigger or not, taxation of this order this year was inescapable if inflationary pressures were not to be allowed to get out of hand. It is the Plan *plus* defence which require all this taxation.

Moreover, there are, as I have repeatedly stressed, long-term considerations. The tax system has to be expanded and made more elastic. Mr. Masani commended the example of Burma which, he said, had cut its Plan although it was a socialist country. I should like, in return, to commend to Shri Masani Burma's example in the matter of enlarging public revenues; the government of that country gets a larger share of national income into the public exchequer than we do.

*Reply to the general discussion on the Finance Bill in the Lok Sabha (House of the People) on August 27, 1957.

Mr. Masani objects to excises, and he argues that these are inflationary. On this point, all I wish to say is that in a situation which is already inflationary, excises divert a part of the excess profits into the hands of Government. Prices, in such a situation, are determined by the play of market forces; they tend to touch the maximum the consumer will bear. In some case, excises do raise prices. But, the aim in such cases is to restrain consumption in the interest either of domestic investment or of exports. The new excise duties are in themselves stiff—one cannot deny that. But, when Mr. Masani talks about the burdens on the common man and the far-reaching adverse consequences likely to follow, he is over-stating his case. I do not need Gomulka or some other discovery of Mr. Masani to tell me what is plain commonsense. You cannot consume as well as invest more at the same time, unless the size of your cake is expanding. That is exactly why some purchasing power has to be mopped up through taxation.

Mr. Masani says if he were in charge he would not tax anyone, until he had stopped all tax evasion. I can assure the House that he cannot really mean what he says as he knows that he would then be setting himself an impossible task. I can assure him that on this basis he will not be able to hold the Finance portfolio for long. Tax evasion is not something you can stop at the wave of a magic wand; tax-evaders are immune from the influence of magic, hypnotism or rhetoric. The way to go about it is to have built-in checks and counter-checks in the tax system itself, and this is what I have aimed at.

Finally, I should say that if someone has a feeling that too many taxes have come in a single year or so, my answer is, firstly, that the situation we are facing is a difficult one; secondly, it is good policy to set to businessmen and entrepreneurs a definite horizon of expectations within which they can function without too much uncertainty.

Let me relate the role of taxation for development in general at this juncture. For financing development on the scale and pattern visualized under the Second Five Year Plan, a large measure of reliance on taxation is not only desirable but also essential. It is desirable because of its relative superiority over other alternative methods of raising resources, and essential because of the logic of the circumstances through which the Plan has to be steered through, if a lasting solution to the problems it seeks to answer is to be attained.

In particular, the case for raising a greater part of resources for the Plan through taxation than envisaged in the original scheme of finance rests on the following considerations:

(i) It ensures a sizeable proportion of the resources required for development in the public sector and on a continual

basis, thereby imparting an element of certainty and continuity to the planning endeavour of the Government and in effect underwriting the success of the Public Sector Plan to a substantial extent.

(ii) Appropriately designed, it acts as an instrument of not only mobilizing a part of the current flow of private savings but also of generating additional savings. In either case, whether by canalizing unused or inappropriately used savings into socially determined uses or by restraining increases in consumption, it promotes a more effective utilisation of the community's resources for building durable prosperity.

(iii) It is flexible and adaptable to the requirements of development in the context of the objectives defined—social as well as economic—being capable of quick and far-reaching changes in its form and structure conducive to planning for a more egalitarian and prosperous society in a democratic set-up; also for initiating economic and social change in the desired direction without unleashing counter-pressures or forces of instability in its wake, as is true with market borrowings or deficit financing beyond a limit.

(iv) It is discriminatory in its effect, its burden being capable of regulated distribution in accordance with the socially determined criteria and in such a manner as to impinge more heavily at specific and preferred points desired in the scheme of socio-economic regeneration of the country. This is because it lends itself to wide differentiation and progression and at the same time offers ample scope for a balancing of the somewhat conflicting objectives of equity, stability and incentives to work, save and invest. It is an instrument for an overall fiscal discipline that can go a long way towards regulating the ebb and flow of economic activity, while at the same time promoting equity among the tax-payers, and through the devices of a well-designed system of allowances, concessions, rebates and differential treatment, acting as an instrument for preserving and promoting incentives to production and investments in the required direction and on the desired scale.

(v) It is a necessary complement to the other ways of raising resources inasmuch as it acts as a corrective to their undesired social and economic repercussions such as that of market borrowings or deficit financing. Their regressive effect on income distribution or destabilising

pressures could well be countered by suitable accompaniments in the field of taxation.

In short, taxation has an increasingly great role to play if the targets of planned investment set under the second Plan are to be achieved, inasmuch as it has the potentiality of ensuring that the necessary resources do in fact become available and not frittered away in excessive consumption, that the sacrifices involved are equitably shared, and that a system of restraints and incentives appropriate to a democratic set-up and effective enough for directing investments on a scale and into channels essential for promoting and facilitating a balanced attainment of social and economic objectives in view, is built up.

This year's tax proposals have to be viewed in this light. The effort is, indeed, large; it promises in a full year a yield of around Rs. 100 crores and an addition to the current year's additional revenue of about Rs. 80 crores. This is the minimum that has to be raised by way of taxation, if the step up of Rs. 150 crores in the plan outlay over the level reached last year is to be financed. There is again the inevitable increase of Rs. 50 crores in defence expenditure. Its essentiality emerges from the fact that other alternative sources can hardly be expected to bring in the increased resources under the present circumstances. The already tight situation in the money and capital market does not offer prospects for any sizeable step-up in long-term borrowings. The signs of upward pressure on prices being on the horizon, prudence and caution-precludes any great measure of reliance on deficit financing. External resources now available are hardly upto even our previous expectations. A sizable addition to our tax revenue as envisaged in this year's proposal is therefore essential for implementing the Plan without inflation, for strengthening the forces of domestic stability and for supplementing our efforts at augmenting export earnings. In addition, designed as they are, they are intended to serve the objectives of equity, higher incentives and a measure of progressiveness in the tax structure. The tax system emerging from this year's reforms would be broad-based and develop a system of internal checks and balances as would render it more efficient, ensuring that the public Exchequer gets its dues and the tax payer knows precisely his liability, not only for the current year but more or less for the Plan period as a whole.

In the end, the taxation measures proposed this year must be judged as a whole. This is because the effects of one tax are sought to be balanced by those of others. If middle class consumption is taxed more by excise duties, the propertied classes are taxed even more and in more ways—the relief in direct taxation goes largely to the salariat. Further, if any tax measure is to be dropped, it must be shown how the revenue loss is to be made good with better overall

results in terms of equity, incentives and progressiveness in taxation. Each tax taken by itself can be objected to on some ground or the other. But it must not be forgotten that what matters is the pattern as a whole. For the reasons outlined earlier, a tax effort of the order proposed is the minimum essential for ensuring the progress of the Plan in conditions of stability, and the changes in the tax structure now envisaged are designed to which the public sector just cannot carry through the responsibilities it is being asked to take on.

Closely allied with taxation policy is monetary and credit policy and I should like to say a few words about it.

In the present context, monetary and credit policy has to be governed by the twin considerations of assisting the growing economy and restraining inflationary pressures at the same time. At some points credit has to be expanded; at other points, especially when there is danger of speculative hoarding and consequential price rises, curbs have to be applied. To an extent, the Reserve Bank's lending rates have been raised. Simultaneously selective credit controls are being applied, through directives to banks under the powers conferred by the Banking Companies Act. A reduction in excessive advances is being sought through increased margins and by prescribing a level for advances against particular commodities. The Bank has issued a series of directives regarding advances against foodgrains, sugar, textile and shares.

The Governor of the Reserve Bank in a fresh circular on July 31, 1957 has urged the banks to take further action to adjust their advances portfolio in pursuance of the directive. The Reserve Bank has also asked the banks to pursue a more cautious policy is respect of advances against commodities imports of which are restricted. Recently, the Governor of the Reserve Bank has further suggested that by the middle of October the banks should seek to reduce their advances by about Rs. 75 crores in a level around Rs. 800 crores. It will thus be seen that credit control is being stiffened. An Hon. Member said that these controls are tardy; a policy of tighter credit should have been applied earlier. It is possible to take such a view. But it is important not to forget the twofold objective I mentioned earlier. It is not only tighter credit that we need: it is controlled and well directed credit which is required if investment is to proceed along desired lines.

I now come to the Plan. Mr. Masani made a reference to the size of the Plan. I am assuming that Mr. Masani is *not* taking his cue from a certain economist who has been arguing rather pathetically that what we should do is just to limit our investment plans to the spontaneous savings that somehow take place in the economy. The Plan has to do something more than that; it has to step up

savings, partly through budgetary policy and partly through other institutional devices. The question, I agree is, how far. There are limits to the process in a democratic set-up—even in non-democratic set-ups, as some of them are discovering now. Mr. Masani says the House is committed to an expenditure of Rs. 4,800 crores and no more. This may be true, in a sense. But the House is also committed to certain targets of production and to a certain rate of overall development. If it is found, in the light of experience, that the assumed relationship between financial and physical targets does not hold, why must Shri Masani conclude that the House is committed to the one and not to the other?

All this talk of Government enlarging the Plan beyond its original size is out of place. The strain on resources has grown because of various factors, some originating within the economy, some outside. The House has agreed, for example, to more defence expenditure; the House has accepted my proposal to have a food subsidy fund of Rs. 25 crores. The point really is that some of the cost estimates in the Plan were on the low side, and it stands to reason that if, with a little more effort, we could obtain the physical targets corresponding to the financial outlays originally envisaged, it would be a good thing. Nevertheless, no one has said that we shall spend any amount necessary, whether it is Rs. 5,600 crores or more, that is suggested if one just calculates arithmetically the revised cost of the Plan. There are limitations of internal as well as external resources which cannot be ignored, and as I stated only two or three days ago in the House, we propose to proceed realistically in this matter. The exigencies of the foreign exchange situation, in particular, make it absolutely essential that we accept the strictest discipline in terms of priorities.

What, then, is the total outlay we are aiming at? This is a legitimate question. It is unfortunately not possible to answer it categorically. Firstly, we have to make the maximum effort to raise domestic resources, and we must cut deficit financing down to the minimum inescapable. Also, we must strengthen our defences against such inflationary pressures as cannot but be released while we are implementing the Plan. Further, we must exert ourselves to attract more external finance. A developing economy needs finance from abroad, and it does not come unless one actively seeks it. India's economy is basically sound. Other countries, round the world—I need not give instances—have their inflation problems even though they are well-developed. There is no reason why the Indian economy should be considered anything but a good field of investment by outsiders who have the capital to invest. The Plan is a flexible one. Our approach to problems is realistic and pragmatic. We cannot at this stage say what revision or rephasing or pruning of

the Plan we shall need. But we are studying this problem. We are keeping a close watch on it. We shall strain every nerve to raise the required resources, both internal and external; and, naturally, the Plan outlay will be adjusted to the resources available. It is no use saying the Plan is too large, and, therefore, the tax burden is too heavy. Taxes of the order I have proposed would be necessary even if the Plan were a little smaller. We have yet to reach the peak level of investment even as per the original Plan. Whatever adjustments are required, the important point is that we must place our tax system on a progressive and efficient basis and we must make the fullest effort that we possibly can to work up to the targets we have accepted. I would again repeat that there is no room for defeatism in this approach, and those who talk about the immediate burdens on the common man wil do well to ponder over what the cost of jettisoning any of the essential items in the Plan would be to the common man if we were to follow some of our modern Jeremiahs.

VII

GENERAL ECONOMIC POLICY

Hon. Members have touched upon a large number of issues during the debate on the Appropriation Bill in the last few days. It is only natural that at a time when the economy of the country is passing through a difficult phase, the comments and suggestions of Hon. Members should range over a wide field. My colleagues, the Ministers for Defence and Education and the Deputy Ministers for Finance and Food, have already dealt with a number of points yesterday in this House; and I shall confine my remarks today essentially to general issues bearing on the economic situation and on economic policy.

It is an interesting fact, Sir, that when we speak of the economic situation today, our thoughts turn first and foremost to the Plan and to the three legs on which it stands, *viz.* production, foreign exchange and internal resources. Most of the Hon. Members who have spoken in this House—and in the Lok Sabha—during the last few days have done so primarily with an eye on the Plan. And I consider it a very healthy sign indeed that our economy has reached a position where its strength as well as weakness emanates essentially from the Plan and from the efforts we are making to put the economy on a course of steady expansion. The stresses and strains we are experiencing are real enough. But when my colleagues and I say that our pains are the pains of growth, that our difficulties are the difficulties of development and not of stagnation, we say it in no spirit of idle boast or escapism or apology. The strain and the problems we are facing are real enough and I have no desire to minimise them. But they have to be approached in a spirit of renewed faith in the voyage of development on which we have started. The remedies we seek, the solutions we attempt, have all to be with one purpose, *viz.*, to maintain and step up the tempo of development which has been built up so carefully over the last few years. To slide back now into the morass of stagnation once again for lack of effort on our part would be to mock at the hopes and aspirations which we have succeeded in arousing in millions of our people.

The basic problems that we are facing today—problems of production, foreign exchange and internal resources—will remain before us for many years to come as long as we keep this dream of development constantly before us. We in the Government lay no claim to

Reply to the discussion on the Appropriation Bill in the Rajya Sabha (Council of State) on August 30, 1957

infallibility and certainly not to any magic formula to dispel all difficulties. Hon. Members may rest assured that my colleagues and I welcome all criticism and constructive suggestions and will always endeavour to give every consideration to what is said in this House and outside. But, Sir, there is a kind of criticism which aims at everything in sight, which reminds me of those dark days of saturation bombing and scorched earth policy, in the Second World War when nothing was sacred and everything was a fit target for a destructive blast.

I was particularly reminded of this death-unto-all attitude by the speech from some Hon. members in the House. It is said we are in this grip of an economic crisis, a financial crisis, and even a crisis "in our domestic affairs". I have no quarrel with such people about how they choose to describe the present economic situation. But I naturally thought that strong feelings on this subject would also evoke some interesting remedies. My curiosity was aroused all the more when I found that one Hon. Member evidently despaired of getting external finance. So, he says, the Plan must be adjusted to the available domestic resources. Apparently, he does not realise that a Plan relying solely on internal resources cannot be a Plan for industrialisation. We need foreign exchange for building up our basic industries, and no amount of realignment of internal resources can produce in the short run the amount of foreign exchange that a developing country needs. External resources are required in the early stages of industrialisation, and if the Plan has—as some would say—a rather heavy accent on industrialisation and the building up of our industrial potential—this is because it is only as we increase our capacity to make our own machines and our own capital goods that we can plan more and more on the basis of our own resources.

FOREIGN PRIVATE CAPITAL

It was also suggested that we should stop the export of profits abroad for the next five years. Firstly, the estimate of the export of Rs. 100 crores of profits is grossly exaggerated. The correct position is that in 1955-56, "investment income" remitted abroad was about Rs. 29 crores, and in 1956-57, it was Rs. 22 crores. Even if the Hon. Member has in mind what are called "private donations", that is, maintenance remittances, remittances of savings, migrants' transfers, etc., these amounted to Rs. 20 crores in 1955-56 and Rs. 15 crores in 1956-57. In any case, it is not true that Rs. 100 crores are exported every year. This point has been a patent prescription from the communist party. It has been repeated on the floor of the House several times, the figure given being Rs. 90 crores, and the correct figures have been provided by way of reply on several occasions. The suggestion to prohibit export of profits is just suicidal. As against

the investment income that goes out, there is some investment income that comes in. In 1955-56, this was Rs. 29·8 crores and in 1956-57 it was Rs. 32·9 crores. (A large part of this investment income is interest on our sterling balances). In both the years, we had a small surplus on investment income account. As to "private donations" again, our receipts are larger than our out-goings. We cannot cut down our payments without affecting our incomings.

If we pay out on profits, we also have profits ploughed back by foreign firms, and some small amount of fresh capital inflow. We wish to encourage, not to retard, the investment of capital from abroad, and I wish to state emphatically that I do not accept and will never accept the kind of suggestions that Mr. Rajah has made. We have given certain assurances regarding remittance of profits and even of capital. We stand by them firmly and without mental reservation. Difficult though India's foreign exchange situation is, it is not as desperate as Mr. Rajah would make it out. Further this is for us a question of honouring our pledges. We shall honour them, protests notwithstanding.

There was another suggestion that is, that we should cut the link of the rupee and create a separate value for it. This reminds me of the game of chasing shadows, for the rupee, like the currencies of all the members of the International Monetary Fund, is now linked equally with the large majority of the currencies of the world by virtue of the common link with gold. The rupee is not linked with the sterling or with any other currency any more than the sterling is linked with the rupee. But, a game of chasing shadows might be exhilerating but if it results in making such suggestions, it would effectively destroy our chances of getting the foreign finance we need. Some hon. Members do not want the wealth tax; they do not like the expenditure tax, I thought that they had found some alternatives—and painless ones at that. I tried to follow these suggestions with avidity. I am sorry I could not discover any useful recipe in all that has been said I heard some mention about increasing production; I heard that some are unhappy about nationalisation of life insurance; I also heard about the question of regional disparities. It finally ended up with the advice: "Cut the Plan, cut your links with the Commonwealth, and cut the rupee from its moorings." I will only cut my comments on these recommendations. They are unsound, impracticable and positively dangerous.

FOREIGN EXCHANGE POLICY

Sir, if I cannot accept such prescriptions in regard to our foreign exchange position, I do not wish to make light of the fact that there is a foreign exchange problem and that it needs the most urgent

attention of everyone concerned. I know only one answer to this problem, *viz.*, to keep the strictest watch on imports, to promote exports and to attract the maximum flow of resources from abroad. When I speak of resources from abroad, I speak not only of resources from international agencies and friendly governments, but also of private foreign investment. We are determined to do everything possible to attract private foreign investment consistent with the priorities laid down in the Plan. Export promotion is linked intimately with production and internal resources and I shall come to these in a moment. But hon. Members will forgive me if I dwell for a moment on the first plank in our foreign-exchange-policy, *viz.*, keeping a careful watch on imports.

Hon. Members are aware that in January 1957 we tightened our import policy in keeping with the requirements of the Plan and that in July this year we tightened these restrictions still further. I do not wish to go into details here as I have already done so on more than one occasion in the past few days. Both my colleague, the Minister for Commerce and Industry, and I have explained at great length how import policy over the past few years has been geared to only one purpose, *viz.*, to promote the development of the country. The feeling still seems to persist that we have been lax in some sense in permitting inessential imports to come in.

The graveman of the charge levelled against us by my critics seems to emanate from the imports of so-called "other" items—items other than machinery, metals, vehicles and a few other items listed in the article in question such as oils, raw cotton, etc. These other imports have gone up from Rs. 174 crores in 1955-56 to Rs. 266 crores in 1956-57, *i.e.*, by Rs. 92 crores. According to the estimates presented in the Second Plan report, these imports were expected to average Rs. 140 crores per year over the Second Plan period so that import of these "other" items in 1956-57, the first year of the Plan, were higher by Rs. 126 crores as compared to the Plan average. My critics want to know why this increase has taken place and they seem to imply that it somehow must indicate a great increase in inessential imports. Since this point has been made a number of times, hon. Members will permit me a somewhat detailed reply.

Sir, my first point in regard to these figures is that it is not correct to compare what happened in 1956-57 with the estimate given in the Plan. The proper comparison should be with what actually happened in 1955-56, the preceding year or the last year of the first Plan when our payments position was in very good shape. When the Second Plan report was prepared, the figures for the base year were available only on a rough basis and it was not possible to project

accurately the trend over the Plan period on the basis of the imperfect figures then available for the base year. Those of you who examine the calculations presented in the Plan will find that the Plan report assumes that "other" imports in the base year 1955 were only Rs. 130 crores and the report assumes further that these residual imports would increase to an average of Rs. 140 crores over the Plan period. In actual fact, "other" imports in the base year 1955-56 according to the latest estimates presented by the Reserve Bank were not Rs. 130 crores or thereabouts but Rs. 174 crores.

Even so, why did these "other" imports increase from Rs. 174 crores in 1955-56 to Rs. 266 crores in 1956-57 or by Rs. 92 crores? I have had these figures examined and I find that of this increase in so-called "other" imports by Rs. 92 crores, as much as Rs. 50 crores is on account of Government imports not included elsewhere in the Reserve Bank table, another Rs. 6 crores is on account of ships, aircraft and parts and Rs. 12 to 13 crores represents increase in what the Reserve Bank has allowed for in lieu of the return of currency notes from abroad. I am sure Hon. Members would appreciate that the increase in the imports by Government or of ships and aircraft is not inessential by any stretch of imagination. The allowance made in lieu of the return of Indian currency notes represents at worst illegal imports which have come in despite our best efforts—and not something which we have permitted within the four corners of our import policy—lax or otherwise. This whole mountain of great increase in "other" imports turns out on examination to be a mere rat—of an increase of only Rs. 22 crores or so which is unaccounted for. Even this residual item covers a large variety of raw materials as well as some consumer goods. After all, there are a large number of raw materials which we import which are not specifically accounted for in the Reserve Bank table.

Sir, I have dealt with this point at great length as it illustrates how easy it is for many critics to lose sight of the whole elephant and to focus entirely on some small part of its anatomy. Our import bill has gone up considerably—it has gone up somewhat beyond what we can afford to maintain over any length of period without running into difficulties. But our imports have gone up essentially in response to the requirements of a dynamic and developing economy. Other inescapable requirements such as food and defence have added to the import bill. But it is clear that hardly 5 to 10 per cent. of the increase in imports can be attributed to consumer goods. Hon. Members should not forget that in some cases, we have to permit imports to maintain and increase our exports. No mechanism of import control can limit imports to a definite certain figure—some unwarranted imports do come in when internal resources are not

enlarged in keeping with the needs of investment. The remedy here lies in enlarging internal resources and in tightening import curbs as the need is felt so that on an average no more imports come in than what we can afford. We have done all this and shall continue our endeavours in this direction. If the charge is that in some sense our estimates—as distinguished from our policy—have gone away, I would like to remind Hon. Members that balance of payments estimates are a particularly tricky affair all over the world. This has been amply recognised and emphasised in the Second Plan report itself and I would urge Hon. Members not to ask for perfection where perfection is humanly impossible.

INTERNAL RESOURCES

Turning to internal resources for the Plan, I do not propose here to offer any detailed comments on particular tax measures or on the particular criticisms of those offered by Hon. Members. But I wish to make it clear that the problem before us is as much of internal resources as of external resources. The only difference between the two is in terms of the degree of freedom of action that we ourselves enjoy in regard to them.

I have said, Sir, on a number of occasions that in the present circumstances, we shall have to try and reduce deficit financing over the Plan period below the original estimate of Rs. 1,200 crores. That implies much greater effort at economy in regard to expenditure—both developmental and non-developmental—and greater reliance on other sources of finance, *viz.*, taxation, borrowing and small-saving. The additional taxation measures at the Centre constitute the greatest prop we have built so far in support of the Second Plan and our developmental effort in general. In the light of experience we shall buttress this prop by such administrative and other measures as are required to make it carry the burden of higher and higher levels of developmental outlay. I think, Sir, that by taking a large step forward in many directions we have also created a horizon of reasonably stable expectations with reference to which private industry can make its plans for the future.

The proof of the pudding is in the eating and only the future will show how far the new orientation we have given to the tax-system will serve the needs of a developing economy. But I submit that the new system deserves a fair trial as it makes an honest attempt to reconcile many divergent objectives that need to be reconciled in a developing economy.

I cannot, of course, lay claim to having satisfied all tastes. My friends, the Communists, for example, felt so strongly about one

point that they forced a division on it in the other House. Believe it or not, one of the things that the Communists found most difficult to swallow was the lowering of the income-tax exemption limit to Rs. 3,000 per year—and this from a party which pretends to stand for the most under-privileged section of society. But then, I am sure most Hon. Members realise by now how difficult it is even for the Communists themselves to decipher the latest fashion in their own ideology.

While much has been done in the sphere of Central taxation, a great deal more needs to be done in regard to mobilizing the savings of the people—small and large, whether for the public sector or the private sector. Hon. Members will appreciate that the large increase in borrowing from the banks by private business indicates that the problem of finding non-inflationary finance for development is not peculiar to the public sector alone. It is on mobilising the savings of the people that the problem of internal resources for the Plan rests at the present juncture. The Deputy Minister of Finance has already spoken yesterday about small savings so that I will content myself with impressing once again on Hon. Members the organisational and other efforts that we must make to promote savings if internal resources are not to be yet another bottleneck in the implementation of the Plan.

I may add that in the field of taxation, there is a great deal that still needs to be done at the State level. In my own way, I have been turning over the problems of State taxation in my mind and I hope that Hon. Members like Dr. Chandulal Parikh and Dr. Kunzru will keep me prodding in this direction.

THE FOOD SITUATION

I began Sir, by saying that the Plan stands on the three legs of production, foreign exchange and internal resources. Several Hon. Members expressed concern about the food situation. Both Mr. Govinda Reddy and Dr. Kunzru referred to the large imports of food and the rise in the price of food. My colleague, the Deputy Minister for Food, has already dealt with most of these points. For my part, I only wish to add that the Government are fully seized of this problem. Food holds the key to the control of inflation. Our hopes of earning additional foreign exchange by exports in the near future turn largely on the prospects of agricultural production. Thanks to the good harvest of sugarcane, we have been able to export small quantities of sugar this year. But our exports of vegetable oils had to be held back to preserve reasonable supplies for domestic consumption. Production of oilseeds deserves all the attention we can give it in our present foreign exchange situation. In one sense, food

production and reasonable prices for foodgrains hold the key to the problem of internal resources also, for the saving potential of fixed-income earners depends largely on food prices.

Hon. Members, I am sure, would appreciate that production of more foodgrains is only part of the story—that, in addition, the farmers must be induced to part with a large enough portion of their produce to feed the growing demands from the rest of the community. It is here that the food problem gets enlarged into an institutional problem of credit and marketing and land management as indeed of agricultural taxation and the supply of the goods needed by the farmers.

Let there be no mistake about this: a larger marketable surplus does not emerge automatically with larger production of foodgrains. The surpluses here have to be coaxed out—by offer of what the farmer needs by way of manufactured goods at attractive prices. So, from foodgrains we move inevitably to the need for raising production and productive efficiency in other sphere—particularly in the sphere of manufactured consumer goods which are also our most promising exports.

THE PLAN

Sir, I began with the Plan and I must end with the Plan—for the Plan is the theme, the sum and substance of all our endeavours. Hon. Members, particularly Pandit Kunzru, have asked; What are we going to do with the Plan? Are we going to prune it? Rephase it? If so, how are we going to do it? Are we going to cut down the fertilizer plants which are so essential to increase food production?—and so on. Hon. Members will forgive me if I cannot answer all their questions as precisely as they would like. The Plan will be carried forward as far as it is possible in the light of the emergent foreign exchange situation and we shall do all we can to conserve and enlarge our foreign exchange resources within the broad framework of the objectives laid down in the Plan. I for one would never let the Plan be trimmed even by a fraction on the ground of lack of internal resources—for this is a matter essentially within our grasp and there can be no excuse for sparing ourselves or the country any effort within our reach for implementing a Plan which in its essentials is rightly conceived. It was Mr. P. N. Sapru, I think, who asked whether social services will go overboard if the Plan for lack of foreign exchange resources could not be seen through. I will endeavour to the utmost to shift the emphasis to social services and to other activities which depend essentially on internal resources. I have made if quite clear that internal resources are also a major problem at present—that just because they are

internal, they are not there ready to be tapped without effort. They require a measure of sacrifice on the part of some for the benefit of all sacrifice on the part of those who are fortunate enough to be employed, for example, so that the unemployed or the under-employed may be given work. Notwithstanding the ceaseless efforts of those who are out to undermine the economy, I am sure that this country will not be found lacking in that sense of solidarity which is the basis of all planned development.

As for Dr. Kunzru's question about priorities in rephasing, I will readily admit that it is difficult to determine what should come first and what next—whether fertilizers should take precedence over machine-building plants or *vice versa.* That in a sense is a tribute to the essential soundness of our Plan and of our judgment in trying for a Plan of the size and character we have approved. Under the circumstances, we have adopted the only course open to us. Since foreign exchange is the main bottleneck, it is the availability of foreign exchange which must determine what new commitments we should enter into and which not. The commitments we have entered into, we shall honour. The hard core happens to be something to which we are essentially committed. We shall try and maintain imports of raw materials at a level which protects domestic employment. As for new commitments in the public or the private sector, we are already pursuing a policy of undertaking only those where the foreign exchange cost is covered by deferred payment arrangements or foreign participation or foreign loans and grants. There is no question here of elongating the Plan or of working out a brand new Plan according to some pre-determined specifications. To think thus would only be a form of escape from the continuous adjustments and readjustments that must inevitably be made in the light of the emergent situation. That is why when we talked of flexibility in the Second Plan, we did so in terms of at least annual plans and assessments rather than in terms of alternative plans between which we could switch back and forth from time to time. When I talk of rephasing or pruning the Plan, I am not doing so for reasons of euphony or indeed of euphemism. I am only trying to emphasise that we are dealing here with phased and continuous adjustments, that we are dealing with a Plan which is still full of the sap of growth and is pushing forward in many directions.

VIII

WEALTH TAX

At the outset, I should say that the broad principles of a tax on wealth have received warm support not only in the other House but also from a large section of the public, though there has naturally been criticism over some particular provisions. I had re-examined the original provisions in the light of the criticisms and also representations received from various quarters and such re-examination has only strengthened the justification for the tax.

Sir, a tax on wealth is new to this country; but it is not new to the world. It constitutes a very vital element in the taxation systems of most progressive countries, particularly in Europe. Its importance should not, in my opinion be judged purely from its revenue-content. I do not, for a moment, say that revenue considerations should be absolutely ruled out, as a tax is not worth having unless it makes a sizeable addition to the revenues of the Government. But the real importance of the tax, from my point of view, lies in that it facilitates the re-orientation of the tax structure into an integrated pattern. It is not only a welcome supplement to income-tax, but also a corrective to it by which certain objectives of tax policy which cannot be achieved through income-tax alone can be achieved through the combined operation of all the new taxes.

Sir, in this connection, I may mention that there has been much controversy about the question of levying wealth tax on companies. The Lok Sabha went very carefully into this matter and came to the conclusion that, having regard to the corporate structure in India and the concentration of wealth in companies, it is impossible to exclude companies as such from the levy if wealth tax is to achieve success to any significant extent. The House, however, felt that this being a new tax, it has to be approached with some caution so that no avoidable hardship or harassment is caused to the taxpayer. With this end in view, the House made a number of changes, mostly by way of tax reliefs or concessions. I shall now refer briefly to the important changes that have been made in the Bill as originally introduced.

As the House is aware, every individual, Hindu undivided family and joint-stock company will be liable to pay wealth-tax.

Speech moving for consideration of the wealth Tax Bill in the Rajya Sabha on September 4, 1957.

So far as individuals are concerned the exemption limit is Rs. 2 lakhs, and for companies the limit is Rs. 5 lakhs. No changes have been made by the other House in regard to the limits for these two classes. For Hindu undivided families, the exemption limit has been raised from Rs. 3 lakhs as originally proposed in the Bill to Rs. 4 lakhs. At the same time the next slab range has been reduced from Rs. 10 lakhs to Rs. 9 lakhs.

Taking companies first, all companies, whether public or private and whether Indian or foreign, are liable to pay wealth-tax. Ordinarily, a resident company will pay the tax on its total wealth whether such wealth is held in India or outside. A non-resident company, however, will pay the tax only on its Indian wealth. Under clause 45, certain companies are totally excluded from wealth tax. The Bill as it originally excluded banking companies, insurance companies, and certain financial institutions sponsored by the Central Government. To this list has now been added shipping companies and institutions for the promotion of art, culture, commerce, etc., which are not established for the purpose of making profit and which are registered as companies for the sake of convenience of administration. Another important change is that a wealth-tax holiday will be granted to industrial companies for five successive assessment years immediately following the date of incorporation. This concession has been provided not only as an incentive for promotion of new industrial enterprises but also with a view to avoiding any financial difficulty to such companies in the initial stages of their organisation. The wealth-tax holiday will also be extended to new industrial units of existing companies which are created by way of substantial expansion of the existing undertakings. As a corollary to the wealth-tax holiday for new industrial companies, shareholders in such companies will also be similarly dealt with and the value of their shares for a like period of five successive assessment years in which the companies themselves will be enjoying the wealth-tax holiday.

Another important change is that wealth-tax will not be levied on a company in a year in which it suffers loss and further if the profits are insufficient to pay the wealth-tax in any particular year, the tax payable by it for that year will not exceed the amount of profits. These concessions will not, however, be given if the company declares any dividends on its equity capital for the relevant year. The last and important change, so far as companies are concerned, is that shares held by one company in another company, in other words, inter-corporate holdings, will be exempted from the tax in the hands of the holding company.

I have already mentioned one new concession to shareholders who are individuals and Hindu undivided families, *viz.*, the wealth

tax holiday for 5 years on their investments in new industrial companies. A further relief is now proposed to be given by applying Rule 2 of the Schedule prescribing a ceiling of wealth-tax for shareholders of private companies to sharholders of public companies as well. The effect is that the tax payable by shareholders on the shares held by them will be limited to 1·5 per cent. of the value of the shares, taking into account the wealth-tax paid by the companies which is attributable to such shares.

I shall now summarise the important modifications with reference to other individuals and Hindu undivided families. Clause 6 of the Bill as it originally stood provided that in the case of individuals who are citizens of India, their entire wealth, including their foreign wealth, should be liable to wealth-tax, even if such individuals reside outside India, while in the case of individuals who are not citizens of India, only their Indian wealth would be liable to the charge. The Lok Sabha felt that this distinction based on citizenship was not appropriate and that it should properly be based on residence in India. Clause 6 has now been amended by the other House accordingly. The position now is that in the case of all individuals, irrespective of their nationality, only their Indian wealth will be liable to tax, provided they are resident or not resident or not ordinarily resident in India. In the case of individuals and Hindu undivided families resident in India, their foreign wealth also will be liable to tax. But, the tax will be charged on the foreign wealth only at one-half of the normal rates of tax. Similarly, in order to secure that foreigners retain their Indian investments and not remove them from India, on account of the incidence of the wealth-tax, it is now provided that their Indian wealth will be taxed only at one-half of the normal rates. Further, in the case of foreign institutions or foreign residents, any assets represented by loans or deferred liabilities in India in respect of the supply of capital goods on long-term credit basis to Indian industrial undertakings will be exempted from the tax.

I now come to what is perhaps the most important clause in the Bill. Clause 5 provides for exemption from wealth-tax for a number of items of assets of various types. The Lok Sabha has made some small modifications in the concessions orginally provided and has also made some additions to the list. I shall here refer only to those items in clause 5 which have been so modified or added.

(1) Household articles, furniture etc., are now to be exempted fully without any monetary limit.

(2) For jewellery a separate monetary limit of Rs. 25,000 has been prescribed.

(3) According to the original provisions tools and implements used by professional people were to be exempted from the tax up to a maximum of Rs. 2,000. The Lok Sabha felt that this limit was too low, especially for persons engaged in the medical and other allied professons, and, therefore, proposed to raise the limit to Rs. 20,000. At the same time, they have also provided that instruments and other apparatus used for purposes of scientific research should be completely exempted from the tax without any monetary limit.

(4) In the case of Rulers of Indian States, their ancestral jewellery recognised as such by the Government and which is not their personal property is to be exempted. Further, one building of every ruler which is declared by the Central Government as his official residence is to be exempted.

(5) In the case of other assessees, one residential building in rural areas with a population of less than 10,000 is exempted.

I have now come to the important changes that have been made to procedural matters.

Originally, clause 25 empowered the Commissioner of Income-tax of Wealth Tax to revise assessments only in cases where it is advantageous to revenue. Suggestions were made in Parliament in the course of earlier discussions that the Commissioner should also be empowered to revise the assessments in cases where the revision is in favour of the tax-payer. This has now been accepted and clause 25 has accordingly been recast.

The next important change is in regard to the composition of the Committee of Arbitration to settle disputes of valuation. The Lok Sabha considered that it was more appropriate that arbitration should come only at the Appellate Tribunal stage as proposed in the Bill as it is only at that stage all the issues of the disputes between the taxpayer and the department which are relevant for valuation will become crystalised. They however felt that the following changes were necessary:—

1. The Arbitration Committee should consist of two valuers only, and not a valuer and an adviser as proposed in the Bill.
2. The valuers on the Committee should be chosen one by the assessee and the other by the department.
3. The valuers should be empowered to settle disputes on valuation of not only immovable property but also movable property, if either party to the appeal so required.

I do not think it is necessary for me to refer to other changes which relate only to minor details of procedure or clarification of the intention where it is not clear.

Finally, Sir, I must refer to the estimates of revenue from this tax. I had originally estimated the revenue from this tax at Rs. 15 crores made up of Rs. 9 crores from companies and Rs. 6 crores from individuals and Hindu Undivided Families. With the concessions since provided for companies, the receipts from companies are expected to come down to Rs. 6½ crores. In regard to individuals and Hindu Undivided Families only a rough estimate can be made and I expect that the original estimate of Rs. 6 crores will be reached. In the succeeding years, revenue from this source will probably show some increase.

IX

PATTERN OF NEW TAXATION—SOCIAL OBJECTIVES*

Here, we enact a particular legislation in regard to owners of wealth. For one thing, we want to know what they have. Secondly, if they have wealth, they must work to maintain that wealth. That is the basic factor, and that is the point which was mentioned by the last but one speaker, Mr. Bisht. Unearned income by itself would not be able to sustain wealth beyond a particular point. The whole idea is that what a man gets must be earned. Otherwise, he pays a penalty. The scheme of taxes that we have placed before the House, part of which Parliament has approved, is that you give a premium to the person who works. You reduce the taxation on him. For earned income, the tax is lower. For unearned income, the tax is higher. For wealth, there is an additional tax. When we give freedom to any person to earn anything he likes, and tax him lower, we do not want him to spend that money, and therefore, if you spend money, you pay an additional tax so that you do not spend but show substantial savings, invest it and produce wealth again. If there are capital gains, again you pay a tax. That is the scheme of taxation that we have put before the House. Maybe the gifts tax that my hon. friend opposite mentioned is something which is needed not so much as a revenue producer but for the inhibition of gifts of large amount, which is really diversion of funds during the lifetime of a person which again escapes estate duty. From that point of view, this particular gifts tax is complementary, not a revenue-producing measure primarily but something which would fill up the gap.

So here we have gone away from any idea that you had in the past that to earn money is wrong or put a ceiling on incomes, which is a wrong thing to do because you are putting a ceiling on creative effort. You want to allow human effort to expand productive business, you should put no restrictions on income. You have to tax the person. The tax has to be progressively higher in regard to his capacity to pay but you must leave something for him to take home, to feel that 'I have worked, I have paid my tax to the State, I have got something left.' But what do you do with that something that is left? You spend it on yourself to the extent that is normal and decent. If you spend anything more, you pay tax to the State. The

* Reply to the discussion on the Wealth Tax Bill in the Rajya Sabha on September 5, 1957.

best thing for you is not to spend, but put it into forms of productive effort so that the nation's wealth grows. That is the scheme that I have put forward. I want hon. Members to judge this taxation as they would the finance Bill, as they would judge the Expenditure Tax Bill, from the point of view of its being one collective integrated picture where we have now provided for a human incentive to act and to earn as much as it wants. Then, thereafter, put the checks and balances.

Dr. Ramaswami Mudaliar raised certain doubts in regard to our major policy. He said he is not able to understand what is meant by the socialistic pattern of society. Sir, we have never attempted to define it precisely, because, after all, socialism is a thing which means different things in different countries. The East European countries think that communism is socialism. They say you go to socialism and then ultimately become communist and they speak of people's democracies where there is no democracy such as we understand democracy to be. Similarly, socialism has meant several things all over the ages. The Cooperators had thought of socialism. The Fabians had a different version of it. The British Labour Party is thinking of it in different ways and is changing also its outlook. Socialism at one time meant, more or less, the State possessing all the means of production, though it might perhaps be a form of state capitalism. So it is changing. The concept itself is a changing concept. The only thing that we understand by the socialism in a democracy is that the democratic functioning of the State must be maintained, that the democratic spirit must be sustained, that human initiative and incentive must be preserved, but in its exercise, it should not obtrude on the life of society as such or on other human beings. We are thinking of an egalitarian concept as part of socialism. You can have an egalitarian society without its being socialist. The Communists have an egalitarian society up to a point., but it ceases to be egalitarian later on because disparities in incomes come in late. They might check it by freezing all the savings. But they do not really go into this idea of an egalitarian society. There can be an egalitarian society and it need not have socialistic content. Socialism is something where the individual's freedom and initiative for doing anything that is good, anything he is interested in, and developing his own aestetic and intellectual capacity, are allowed to remain free. Subject to certain overall considerations. Every person has the opportunity to develop.

So it is not as if socialism is our birthright and that we will introduce it today or tomorrow. Nor do I claim that this tax structure that we have envisaged is something which is going to bring in socialism tomorrow. It is not. The general principle is

what I have enunciated, namely, that while keeping the individual's incentive, we are going to get a tax system which is integrated and which will have an equalising effect and which will discourage people from not earning or working, a system that might fit in with the socialist pattern of society. I may say—and my chief, the Prime Minister, has often said it himself—we do not claim by some measures that we are undertaking that we are bringing into being a socialist pattern of society. A lot more will have to be done.

That is the real difficulty in any system that we propound. It might be socialist or it might be anything else. Unless you have checks and balances, unless you are constantly at it you will probably get another society which will be the very opposite of what we believe socialism to be. It does not mean that if in Russia, Lenin started a particular form, tomorrow it will not become something else. It may have engineer autocrats getting 40,000 roubles or something else. It is quite possible.

So when we lay down a pattern of taxation, it does not mean that we are evolving a philosophy. The wealth tax, the expenditure tax, the gift tax and the capital gains tax, all these might exist even without a socialistic concept, or merely with the concept of a welfare State. So I would like him to understand that if he thinks that it is merely because we have been thinking of going towards the socialist goal—whatever that might ultimately be—that we are doing all this, then he is mistaken. We have to do all this even if we are not socialist. If I am the Finance Minister in a government which does not keep the socialist goal such as my party has, even then I think we would have to do this sort of thing, for this reason that the tax structure itself becomes moribund. A 92 per cent income-tax evaded at all points is no good, because when the top becomes heavy, the base becomes corroded, and it has absolutely no resilience, and I cannot raise any money. But if I bring my income-tax towards 60 per cent., then I can make a surcharge. Any year I want extra income I can put in a 30 per cent surcharge. It is possible. I think the tax that we are imposing with low incidence, from my point of view at any rate, is a thing which is capable of yielding something at any time you want it.

I would again tell the hon. Member and this House to please refer to the penultimate paragraph in my budget speech where I have said this is a pattern of tax that I am placing before you. If the earned income-tax does become the standard tax, and yields more, as I expect it will, where is the chance of its being lowered? The other things are merely complementary. If you lower the earned income-tax, you have got to raise the unearned income-tax, because there is no justification. There is little yield. If you lower one

you have to raise the other. This compensatory action will be necessary.

The pattern is there and that pattern is that the tax structure must be flexible. Something must be left in the hands of the people, which may be used at any time when I want a little more, by way of temporary surcharge for a year or two, as the hon. Member mentioned. God forbid that there should be a war on. But supposing we come to a situation where we want a little more, I might levy a surcharge of 30 or 40 per cent. for a period of two or three years, and people will be willing to pay it for the reason that it is a temporary tax. That is what I mean in the penultimate paragraph of the budget speech. This is the broad pattern for the Plan and I think any successor of mine, should he take charge within a year or two or three or four years, would be unwise to disregard the assurance I have given, for if he starts anew and does something, then the whole edifice might collapse.

After all, what we are doing is not something for today. I am not doing it merely because I happen to be the Finance Minister. I am doing something which my successor can carry out and thus earn more money for the State by way of tax collections. That is exactly what I have in mind. It does not amount to much because it is a question of half a per cent or a quarter per cent here or there. Any adjustments made or any concessions given today can be taken away tomorrow but that does not alter the pattern of taxation for even the people who start business.

We are not doing away with capitalism; capitalism is staying and the private sector is staying. All that we are trying to do is something by which this handing down of money from father to son and big families staying on all the time will not be possible unless the son is going to be as good as his father. The father is the man who builds the enterprise. Unless the son is as good as the father, he will not be able to attain his father's place. He has to sell. Therefore, if he works, he has the right to what he earns; if he does not work then he has progressively to part with it and that is the scheme we have placed before the country. If it is accepted, I think the pattern will remain and people who invest money can know. If he is earning money and is paying 77 per cent perhaps he will think that he will pay a little less next year, say 70 per cent for company taxation is such that there are checks and balances everywhere. If you want to plough more money into the company for purposes of developing the company, do so there is nothing to prohibit you from doing it. We have all kinds of rebates for new enterprises, the development rebate, the special depreciation allowance, etc. If you buy capital goods at high cost, there is something to bring it down;

if, on the other hand, you want money to pay your debts, there is money to borrow. If, on the other hand, you have ideas of postponing the payment, you can postpone and you can double your plant. These are factors which make people know that they can act freely, of course, subject to the overall condition that the stability of the State is maintained and the moral principles which govern any State are adhered to. Whatever we may say about the socialistic pattern, our goal undoubtedly is greater egalitarianism, greater democracy not merely in the political sphere but also in the economic sphere.

Every child that is born should be capable of rising to the highest positions in the country, whether it is business, industry, political or any other filed, that there should be no let or hinderance and we should probably come to a time when the State will be able to find him all the money necessary if he has got the talents to develop. That is the type of pattern we have in view and that is not covered entirely by this tax scheme. It merely is endowed with certain of our ideas but primarily it is a question of having an elastic system of taxation which will yield more money for the Plan and for the future plans thereafter.

Nobody is thinking of taking away shops. Nobody is thinking of taking away the initiative of a person who sets up a workshop, even, for that matter, something bigger than that. We are not thinking in terms of doing away with the private sector. Nor are we thinking in terms of doing away with their initiative. But that initiative will have to be exerted fully and freely subject to the overall needs of society, and that is all we are trying to do now. In fact, our socialism, if it really takes shape in the next few years or perhaps in decades, is such that it will allow private enterprise, so long as it plays the ball, and it will play the ball. There is place for the private enterprise in a society where fresh blood will be coming up, right at the top. It is not going to feel like building dynasties. It won't and other checks and balances will be thought of.

Every day ideas in regard to what the Government should do in the field of industries are changing. We do feel that in course of time public institutions, like the Provident Fund Trust, the Life Insurance Corporation, the Pension funds which you probably want to establish later on, will have a share in the profit-earning industries, so that the benefits of these industries would to a very large extent be diverted to probably public channels. We are not thinking so much of State-ownership or State control but something where there will be public control; the benefits would be passed on to the public. So we are not thinking in terms of eliminating the

private sector at all, and I would certainly not take away any initiative.

But that does not mean I should give a free rein to anything that they want to do. My hon. friend Mrs. Munshi mentioned about laissez-faire. Well, laissez-faire is a doctrine which has no application in any country, not even in America. In America, where they speak of private enterprise. the checks under which private enterprise has to work are sometimes even greater than what exist in a country like the United Kingdom.

Coming back to this question of private sector, we do believe it will exist. It will exist in varying forms. Its shape will change, but it will not be destroyed. So we would like to leave the initiative to it. The initiative as still there for any person interested in industry. It is still there and in fact, I do feel that the measures that we are not putting forward would perhaps help in the long-run. To-day what is happening? I said the other day about this question, of no equity capital being available over a period of five years. That is not my fault, not the fault of Government. When debenture capital is available and the existing companies are able to get subscriptions to their right issues even from people who are not shareholders, from people outside, well, there is something wrong. It is a question of lack of confidence in particular people who go to the market, rather than of lack of confidence in Government. It is unfortunate because we want them to get savings. Today my chief trouble is that this expansion in industry which is taking place notwithstanding our difficulties in regard to foreign exchange is credit financed and not backed by genuine investment and I think that this tax on wealth which compels people not to keep their wealth as idle wealth is something which is going to be productive, which is going to help us, not to hinder.

The question of taxation of companies has been mentioned by my hon. friend and I have answered it at considerable length. The tax is very small—1/2 per cent. There is no point in saying that it is very small, it should be raised to 1 per cent. I do not think it is good because 1/2 per cent will yield a sizeable revenue. If we raise it to 1 per cent, well, it will start dropping, being a heavier burden, and I always believe in a very small tax. The yield does not rise with a higher tax. The yield shrinks on account of evasion, and that is how we have ruined the sales tax system in our country. If we had started the sales tax small, the evasion would have been small and the total outturn would have been much greater. In fact when I had something to do with the first sales tax in India, we started off with 1/2 per cent. So I think 1/2 per cent is a good thing and I do not agree that it is going to do a lot of damage to the

companies, is going to inhibit investment in equity capital. 1/2 per cent would not scare anybody away. If anybody is going to tell me that the ghost is there, that it is having a hold on this country, I will have to say, "You are merely seeing the ghost and not the substance in it". I think that this kind of propaganda by companies that this company tax is something terrific and going to ruin this country, is just a fiction intended to frighten the people and merely because they think that this is a stick with which they can beat the Government. When the big industry has not another stick, the tax on companies is a thing with which you can beat the Government. I find no validity in these objections in regard to company taxation.

Let me come to exemption limits. Members have spoken on the exemption limits. Some hon. friends here have also said: Why leave a house free in the rural area? For one thing even a big house in the rural area has no value at all, and its valuation is a problem. It will cost money to the house-owner as well as to the State. So far as the house in a city is concerned, it is a different thing. Somebody said: Why don't you give them a house which is worth a lakh of rupees? I have no objection. If the hon. Members in this House think that the limit of taxation should be lowered to one lakh from two, I have no objection to their allowing a house of Rs. 50,000 to be given free. The real point about it is this. Everybody forgets these two lakhs and when you speak about jewellery, a person having jewellery worth Rs. 27,000 will be asked to pay tax on Rs. 2,000, wealth tax on Rs. 2,000/-. Rs. 27,000/- is not some arbitrary figure. It is to be added on to the Rs. 2 lakhs. If a person has Rs. 2,27,000/- then he will be taxed on Rs. 2,000/-, but Rs. 2 lakhs is a thing which everybody conveniently forgets. But the point really is that this middle class has not got Rs. 2,00,000/- and I think that is precisely where the Rs. 2 lakhs will start off. The Rs. 2 lakhs will exempt the middle class altogether and I think a middle class person even if he has Rs. 25,000/- worth of jewellery probably won't have more than Rs. 2,00,000/-. If there be a marginal difference of 2 or 3 thousand rupees, no wealth tax officer will tax you, 1/2 per cent for it.

The real point about it is: if you do not want the two lakhs, if you start with no exemptions at all, I agree, you must give a house free; you must give many other things free. In fact if you do not want anything free, I am prepared to raise the limit by another Rs. 25,000. There is no point in saying: You raise the limit from Rs. 25,000/-. You cannot have it both ways. You cannot conveniently forget the Rs. 2 lakhs and say, "Oh, Rs. 25,000. A person has Rs. 27,000/-. What should he do? What about this, what about that, what about tools and equipment? Rs. 20,000 for tools and

instruments? Why do you give?". I do not know why the Select Committee raised it from Rs. 2,500/- to Rs. 20,000/-. I cannot see the rationale of it.

Honourable friends here have compared wealth tax with the system that is obtaining in other countries and noted that the rate in other countries is more or less comparable with ours but the exemption limits are different. In Denmark the rate varies between ¼ per cent. and 2 per cent., the exemption limit is Rs. 13,780. In Sweden it is ¼ per cent. to 1·8 per cent., while the exemption limit is Rs. 46,000. In West Germany it is ¾ per cent. and the exemption limit is Rs. 22,000, according to the rupee valuation of the mark. If you want to have an upward revision, you can add another Rs. 6,000 or Rs. 7,000. In the Netherlands the rate is ¼ per cent., the exemption limit is Rs. 18,825. In Norway it is ¼ per cent. to 1¾ per cent. while the exemption limit is Rs. 16,000. On this question of exemption, we can have a lower exemption limit and we can exempt a number of other things but you cannot have it both ways. I have had a graph made of income-tax in India and in other countries. We were slightly higher than U.K.—the taxes which obtained before the Finance Bill was passed. We are now below the U.K. In some sectors we are below Japan. In the top sectors, we are above Japan. In the medium sectors, we are below Japan, because Japan is higher. But we are generally higher than any other country so far as income-tax is concerned. If my hon. friend says, 'income-tax you are charging more, other countries are charging less' I can tell him this that the exemption rates in the case of income-tax in many other countries compared to their per capita income are much lower than ours.

My hon. friends opposite have been criticising certain exemptions. Somebody said shipping companies should not be given any exemption. The real point about it is, I need not. I can include them but I have then got to give them subsidy. Even as it is, they are heavily subsidised, and on the basis of their income even this tax of ½ per cent. would work out somewhere about 22 per cent. So there is no point in a heavily subsidised industry being included here, an industry which you want to stimulate, so far as its future is concerned. There is no point in including the shipping industry.

So far as banking is concerned, it is money given today and taken away tomorrow. It is not a thing on which you can make an assessment. So far as life insurance is concerned, it is largely with the State and the other insurance is there where the assets are comparatively small. These matters have not been looked at from an ideological point of view.

Dr. R. B. Gour: I would like to ask one question. How will the Hon. Minister explain the addition of these exemptions that have been made to clause 5. You have included these exemptions as amended by the Select Committee and said, 'such assets shall not be included in the net wealth of the assessee.' That means that you are raising the maximum limit beyond two lakhs.

Mr. T. T. Krishnamachari: Not the whole lot of them. There are certain sectors only. If my hon. friend will look at it again, he will find that we have not included in the wealth of the assessee things like special ten years treasury deposits savings certificates. You may say that the Government is being selfish; I admit but I want people to invest more money. I am already giving them tax-free concessions.

Then, the question was raised about collection, harassment and all that. I am glad my hon. friend, Dr. Mudaliar, is here. I was very grateful to him for pointing out the impropriety of blaming the officials, and I have no doubt in my mind that the officials who administer this Act would bear the fact in mind that it is creating, even among the small section of the people which would be affected, an antipathy, and therefore they have to go about it fairly gingerly, and we should try, as far as possible, to see that the rules are so framed that the officials conduct themselves in such a manner that they will not give any room for this complaint, unless it be that it is invited, because sometimes it happens that a person sends his return and we say we won't accept the return. Mere non-acceptance of the return cannot be harassment. So, if that is the interpretation of harassment, well, I am afraid we cannot help it. But needlessly worrying the people is a thing which we can certainly stop altogether.

I think I have broadly dealt with most of the main points that have been raised. Though many faults have been found in this Bill, a very large section of the House has generally accepted the principle of it, and I can assure the House that if they pass the Bill, they should bear in mind the fact that the House has given approval to this Bill, a new one, with the full knowledge that it would be worked sympathetically and that it would work as a part of the integrated system of taxation which we are now envisaging, and the Government will do its best to make it a success.

I think one hon. Member said something about reporting to the House. I do think, that it would be desirable that we should keep the House or Parliament informed from time to time about the working of these new taxes, and I shall certainly make it a point to send a report with regard to the working of this tax.

APPENDIX I

THE SECOND FIVE YEAR PLAN—OUTLAY AND RESOURCES

I shall confine myself to the remarks made by hon. Members in regard to the problems of resources, deficit financing, foreign exchange and price policy. To some extent, these points have been covered by my colleague, the Minister for Planning, but after he had made his speech, I think, three hon. Members in particular laid emphasis on certain defects in the Plan in regard to these matters. The hon. Dr. Kunzru and Dr. Zakir Hussain approached the Plan from two different aspects. Both were sceptical about the outcome. In the case of Dr. Kunzru, he said that the Plan was ambitious. I think that is the general impression that one got. In the case of Dr. Zakir Hussain, he felt, that the Plan had become truncated and, therefore, was not likely to attain those objectives that we have in view.

Sir, in the matter of planning for five years ahead, I think there is room for scepticism both ways. It is quite possible for some people to feel, well, this cannot be done. It is also possible for some others to say, this is not enough. And the very fact that there have been two hon. Members, eminently respected outside this House and also in the House, who have postulated two different points of view is the justification for the targets that we have fixed in the Plan.

The question was raised by these hon. Members of the results of the First Five Year Plan and about the fact that we have not placed before this House a precise evaluation of the result of that Plan, and I think they supported this charge by quoting from the World Bank Mission Report, which has *inter alia* mentioned that statistical information in regard to the working of the First Five Year Plan is not available. I must plead guilty to the fact that we have not placed before this House an accurate account of what we conceive to be the results of the First Five Year Plan; but that does not necessarily mean that we should not go ahead with the Second Five Year Plan. We see broadly the trends of the First Five Year Plan and we have drawn from that experience in assessing what we feel ought to be the Plan for the future. In fact, in any matter of assessment of the future, I think there can be no precise yardstick and there must be differences of opinion. Supposing we take

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Speech in the Rajya Sabha on September 7, 1956,, during the debate on the Second Five Year Plan.

this question of assessment of the demand for a particular type of consumer goods or services that we have need of in the future. The man who is doing this work will necessarily depend on certain facts as they exist, certain demands that have been created, and project his mind into the future and make an assessment. A statistical evaluation only gives you what the trend is. It cannot really determine what is going to happen in the future and, therefore, if there are imperfections in the Plan, as they may appear to hon. Members, I think they are inevitable. If, on the other hand, we make bold to make a claim that this outlay of Rs. 4,800 crores that we have envisaged is the last word and within this Rs. 4,800 crores we must achieve all the targets that we have set for ourselves, I think any hon. Member, even a tyro in economics, would get up and say what utter fools the Government are in taking such a view without being aware of the conditions and limitations that would come into being over a period of five years and in asserting that this is what they will do, no matter what may happen. I do not suppose the Government would easily fall into that pit, even though the suggestion is made. That, Sir, makes me feel that scepticism generally about the Plan is not a correct thing. The Prime Minister will tell the House about our ambitions and aspirations in regard to the Plan and I do not propose to labour those points.

To come to some of the items enumerated by the hon. Pandit Kunzru, he has taken up the question of the allocation for the steel plants, for which a provision of Rs. 350 crores has been made. He envisages that there will be a gap. I agree that there is a gap. In fact, originally we thought that the allocation that we needed would be Rs. 425 crores. Maybe it has to be stepped up further now, partly because of the fact that the costs of the capital goods that we need have gone up and also to a larger extent because of the fact that civil engineering costs in India have gone up and are likely to go up further. In fact, when we were assessing the needs of civil engineering in regard to the steel plants round about July last year, we took the basis of costs on the basis of what the railways had done. Their base is 100 for 1939, and their evaluation of the present cost of civil engineering, particularly in so far as it affects them, would be somewhere about 260 or 270. We now find it would probably be nearer 320. If prices rise there must be some consequences following from that. May be we cannot raise resources to that extent and the Plan will have to be shortened. On the other hand, the very fact that there is an increase in prices in certain sectors may itself generate conditions for us to tap. And so, speaking for myself—though I am only a few days old as Finance Minister—I would make bold to say that what appears to me today is not so much the paucity of internal resources for the fulfilment of this Plan, but rather other

conditions which may perhaps make it difficult for us to achieve the targets set for ourselves in this Plan, namely, the question of foreign exchange, the question of prices all round. These factors are somewhat more difficult to handle, to envisage, to deal with, than a mere matter of raising internal resources. I do believe in a country like this with 377 millions of people, provided we enthuse the people for the Plan—and we hope to—we shall be able to raise the resources. In any event a Plan of the extent and magnitude that is envisaged here—both in the public and the other sectors—will in the course of about two or three years generate a certain amount of resources greater than what we have anticipated and provided for. In many cases, the resources we can tap which have been indicated in the Plan are rather conservative, and, therefore, if that is the charge that my hon. friend Dr. Zakir Hussain has made, of our being conservative in the estimates, I plead guilty. It is better to be conservative, to know exactly to what extent we can go and where the cushioning is rather than to go to the extreme extent and plan for every detail. If that charge is made, I should plead guilty.

It is true that, in so far as these steel plants are concerned, there will be a gap between the Plan figure and the money that we will need. My own feeling is that if, by spending a little more on the steel plants—say Rs. 10 crores more—we can accelerate production by two months, I will be willing to do it, because within the Plan period I will be able to raise resources from the production of the steel plants. I am mentioning this question of industrialisation at this stage because I think it probably fits in with the idea that the Plan itself may have to be enlarged in so far as its expenditure is concerned in terms of rupees, annas and pies.

Well, the charge was made by Dr. Zakir Hussain that the Plan as it was envisaged in the Plan-Frame had been cut down on an arithmetical basis and that the public sector industries had been to that extent badly affected. It maybe he draws these conclusions because of certain facts and information which have come into his possession, but if he is merely giving these ideas on the figures that we rave given in the Plan, I would say that in so far as the basic or heavy industries are concerned, we have not said the last word, though if I am going to draw on the results of the working of these basic industries, it will not be during the Plan period; it will necessarily have to go to the Third Plan. We are at the moment very seriously engaged in exploring the possibilities of setting up a heavy machine-building plant and some basic industrial plants which, on the very rough estimates that I have with me, might probably require Rs. 100 crores. That is why I would like to tell my hon. friend, Pandit Kunzru, that he is right when he says that

Rs. 4,800 crores do not cover all the things. I am conscious of it, and I am not telling people that I would be able to deliver everything, lock, stock, and barrel, if they provide me with Rs. 4,800 crores. We will need more, and as I have said I would like to underline once again that the problem is one not so much of internal resources but a problem of foreign exchange, of finding the personnel, of maintaining prices.

Pandit Kunzru mentioned this fact of foreign exchange. He said that our figure of Rs. 800 crores was an exaggerated estimate of what we would be able to get. In his opinion, only Rs. 500 crores would be available. I would probably like to speak on this question some time later when we come to the question on what we are doing with regard to foreign exchange resources. After we have had time to sit down and take stock of the present position and evolve a policy, that will be the time when I shall come before this House and tell them what I propose to do; but at the moment I would tell my hon. friend Pandit Kunzru that, if it is a mere matter of guessing—may I put it to him very humbly—then I am in a better position to guess than the hon. Member. I can also tell him that the gap is not Rs. 800 crores. It is going to be much more and we are now thinking in terms of Rs. 1,200 crores. Well, how am I to bridge it? There are certain possibilities, certain directions in which we are already proceeding. Some of the trade agreements that we have concluded with those countries which have trade connections with us for supplying certain things have been so arranged that our obligation to pay for the value of the goods that they supply in terms of foreign currency is obviated. We pay in rupees. It means that they purchase goods in this country to a large extent. Any hon. Member who is an economist like my hon. friend, Mr. Kishen Chand, may get up and say, "Would it not be denying to our own people the goods and services that we are going to supply them? Or would you change your pattern of trade? Where is the question of foreign exchange saving?" I am expecting—maybe it is not a correct expectation—that the bulk of the goods that we will supply to these countries in return for goods that we will get from them will be additional to our export target as it exists today, but even so, after providing for all this, if I can still say that the gap is only Rs. 800 crores, I shall be happy. My hon. friend, Dr. Kunzru, mentioned the recent agreement that we have entered into with the United States of America under what they call Public Law No. 480. I would certainly like to say that we are very grateful that this has been done. It saves us foreign exchange to the extent of Rs. 160 to 170 crores, but from that Pandit Kunzru has been deducing a figure. I am only concerned now, as I said, with the foreign exchange aspect of it. It gives me Rs. 160 to Rs. 170 crores. Its con-

sequences on our internal resources are a different matter altogether. I am not adding it to our internal resources *in toto*. *It* may be that I have to give a certain portion of it for the expenditure of the American Embassy here, and it may be that I have to give some portion of it to so-called private enterprise. That incidentally may save me from providing finance for certain sectors of private enterprise like small-scale industries. But it is not a matter which in my opinion, is vital. The arithmetic of it is to be found more or less in what it gives me in terms of foreign exchange and, therefore, I welcome it, and we are indeed grateful to the United States Government for having given us this help primarily in the matter of foreign exchange and secondarily in the matter of foodgrains and other essential commodities.

All that I can tell my hon friend, Dr. Kunzru, is that we realise that there are weaknesses in the Plan. There must be weaknesses in every Plan when the Plan is being operated in a dynamic economy, but things are changing. In fact, sometimes we are rather happy that things change because it shows that the economy is sound. If we find that our targets are falsified, as we are finding in many categories, it is not for me something to regret but a matter for me to enthuse about. Of course, it raises the problem for me to find the goods and services necessary, but nonetheless it is a challenge to our ability to meet this situation rather than something to make us depressed.

I now come to Dr. Zakir Hussain's criticism, which is revealing and which is singularly reminiscent of many things that I have heard during the last year. I went through the speech of my former colleague and predecessor in my office, Mr. Deshmukh, in the other House and I find he had to face the same problem, that is to say, the charge that was levelled against him as one of the architects or draftsmen of the Plan was that the Plan-Frame* idea had been given up, that the targets envisaged in the Plan-Frame had been subordinated to certain other targets and the Plan that was presented to the public was a lopsided effort intended specifically to benefit certain classes.

I am afraid the source of information or the literature that my hon. friend Dr. Zakir Hussain had, must have been more or less the same as that used by hon. Members in the other House. But if I may be pardoned for using a bit of economic jargon in this connection, though I am not quite competent to use it, the Plan-Frame is a sketch. It is a pencil drawing before an architect thinks of what the final shape is going to be. Maybe when a man makes a pencil drawing on a board, it resembles Epstein's

* This refers to a preliminary outline of the Second Five Year Plan prepared in March, 1955.

rather than something which is very clearly and precisely delineated. It is massive, it is huge in shape and is something mysterious. I would therefore claim that when we as a Government, accepted the Plan-Frame, we intended it to convey nothing more than what Epstein's work conveys to the man who sees it. The Plan-Frame is again an attempt at what is called 'macro-planning', a word which my predecessor used in the other House, that is, a plan in a big scale leaving the details out, the details in various degrees to be filled after precisely evaluating each sector. If in an attempt at macro-planning, we presented a particular picture and thereafter we started chiselling it to give it a proper shape, I don't think we can be blamed for it. Besides, there was no positive or definite attempt to depart from the basic fundamentals, so far as the objectives are concerned. There was no question of alteration of the Plan. What we had in mind were the facts mentioned by hon. Members like Dr. Kunzru, a competent critic who tore the plan to pieces and said that it was far away from realities as they existed today and how they would eventuate tomorrow. The other fact mentioned by Dr. Zakir Hussain as an illustration of his thesis that the Plan is largely an arithmetical evaluation and therefore an arithmetical pruning. In regard to transport, Dr. Zakir Hussain said that industry has suffered and transport has benefited. I would like only to say to Dr. Zakir Hussain that, as he himself found, while he complained of the allotment made for transport, practically every hon. Member that spoke on transport in this House and even in the other House blamed us for the paucity of funds allotted for transport. Again, may I claim the easiest way of escape in a matter like this and say: "Well, we have done reasonably wisely and taken the line of the golden mean"? I admit, and I am sure my hon. colleague the Railway Minister will admit, that administratively the Railway equipment today be able to yield better results but at the same time it will be wrong on his part or on anybody's part to accept that physically the resources are available for us to carry the increased tonnage that we will have to carry, and it is not a question of starving private enterprise or starving the private traveller but it is a question of meeting the needs of the people. Today in the context of what private enterprise does, we realise that those instruments of production in the hands of private enterprise produce goods for the benefit of the common man whom we serve or whom we seek to serve. Merely by the fact that private enterprise is somewhat benefited you cannot say that I am not providing the common man with something that he needs or ensure that he gets it. Therefore the argument that we have trimmed the Plan in such a way that we have taken away the basic industries which will take us on to the Third Five Year Plan and put us on a better footing and have given more to

the Railways is not correct, nor is it correct that we have heavily leaned in the direction of private enterprise.

It is certainly a captivating argument to say that if you produce steel, who uses it?—private enterprise. But does not the blacksmith who uses it for producing some articles for the common man belong to that same private enterprise? If that is private enterprise, we want that private enterprise, but if it is somebody who wants to make money and exploit the people, we don't want that private enterprise. Certainly we will control that and see to it that somehow or other the exploitation carried on by private enterprise is completely eliminated, even if it is necessary for a proportion of private enterprise to go. Therefore, if you say private enterprise is benefited, I say, incidentally many people benefit. If I produce an article, the man who carries it benefits by it. The man who produces the raw materials for it benefits. I will tell the hon. Member an experience that I had 2½ years back when I went to Mysore State to see the Bhadravati Iron Works. I was going up a little further to see the Jog Falls and I had to stop at several towns on the way. There was a great amount of enthusiasm in the minds of the people living even as far away as 50 miles from Bhadravati in regard to the expansion of the Bhadravati works. It may be that this particular factory is owned by the Mysore Government. It might easily have been owned by private enterprise. The people were very enthusiastic about it and everybody wanted to know if there was going to be expansion there because the hamlet of Bhadravati, which had only a few huts at one time, had become a prosperous town feeding, both in regard to raw materials for industries and otherwise, an area going as far as 50 miles further west. Therefore, it is not correct to say that something is being done, particularly for private enterprise, although it may benefit private enterprise also.

The other question that I would like to deal with is the question of resources. I have already mentioned that so far as resources are concerned, broadly my fears are essentially with regard to foreign exchange and also with regard to certain factors which are indicated generally by the price levels rather than the fact that we cannot increase the resources internally to meet our Plan needs. I cannot indicate at this moment—I think it will be imprudent and it is never done, at least in detail—what type of resources we are thinking of raising. This can only be dealt with from time to time. Broadly the Plan provides the frame and it indicates the resources that we are thinking of getting from each particular sector. The criticism, therefore, that the Plan does not lay down concretely how the resources under each head are to be raised is somewhat off the mark. The important thing is to ensure that the required resources

are raised in adequate measure and at the right time. I would like to tell this hon. House that it is the intention of the Government to pursue this path steadily and relentlessly.

Reference is made in this connection to the report submitted to Government by Prof. Kaldor. The Government is giving most careful consideration to these proposals. A team of experts was sent abroad to study the administrative and other aspects of these proposals and the matter is being gone into further. But it must be remembered by hon. Members who perhaps feel that this Kaldor Report and the recommendations made therein indicate possibilities in respect of resources which are fairly rosy and optimistic, that the proposals that Prof. Kaldor has made are of a far-reaching character and they involve, if I may use the word, a re-vamping of our present tax structure. Nor am I in a position to know or confirm that hon. Members who have been speaking about this Kaldor Report and the proposals contained therein do understand the proposals and the rationale behind them. The basis approach of Prof. Kaldor is to strengthen the incentives to work, save and to take risks and to equalise the burden of taxes on the salaried and the propertied classes. I would like hon. Members to mark the particular emphasis that Dr. Kaldor has put on the salaried and the propertied classes. The normal conception that we sometimes have and which has developed in us an allergy against the salaried classes is notoriously conspicuous by its absence in Prof. Kaldor's proposals. On the other hand he has emphasised the fact that in the type of economy that we envisage the salaried classes will have a large part of play and therefore, some encouragement will have to be given to them. The annual tax on wealth is not a proposal to tax wealth as such. Its purpose is to tax the incomes derived from wealth at a higher rate than the incomes derived from work.

Prof. Kaldor also proposes that the present income-tax rates must be reduced, and that the maximum marginal rates should be 45 per cent as against the present rate of 92 per cent in order to accommodate the expenditure tax and the tax on wealth. I do not know how many hon. Members will support a proposal of that nature, even assuming that we have the complementary proposals ready, because what will appear to the eye will be the reduction and not the complementary tax, which should bring in more money. Anyway, we realise that it is not a thing that we can accept straightaway, bacause immediately it would mean an advantage to the salaried classes of the higher income-brackets. Therefore, it is necessary to consider carefully how far reduction in income-tax rates is possible at the present stage. We have not made up our minds whether or not Prof. Kaldor's proposals should be accepted and, if so, in what form. The significance of these proposals should be understood

very clearly. The central issue is the manner in which the Government should raise the resources required to be invested in the public sector. We are trying to increase the Government's share in the total investment. Resources required for this investment may be found in two ways—one by way of public savings or by the transfer of private savings to the public exchequer by borrowing, or, alternatively, by deficit financing. Prof. Kaldor's main point is that any attempt to increase public saving beyond a point by greater progressive income-taxation is self-frustrating in the sense that the direct gain to the exchequer is more than offset by the indirect losses to the community in terms of the impairment of the incentive to work, to save and to invest. Essentially Prof. Kaldor is in favour of encouraging savings in the interest of investment in both the public and private sectors. His quest is for techniques which will minimise the need for confiscatory and inefficient taxes. This is an approach which certainly deserves attention. But it is not possible to announce in advance the Government's decisions on Prof. Kaldor's proposals. All that one can say is that these proposals are under examination.

Hon. Members have also suggested that additional taxes should be mainly by way of direct taxes rather than by indirect taxes. There can be no quarrel with the idea that the incidence of new taxes must fall on the better-off classes. But I would like to refer hon. Members to the Taxation Enquiry Commission's Report, which has emphasised that our indirect taxes are mildly progressive in their incidence. And in regard to the future, broadly in regard to the providing of goods and services to the common man, where the production of these goods fall short of the demand, we have increasingly to use the device of indirect taxes, perhaps to inhibit consumption. Import duties may be effective, and if they are they should be used to effect. Excise duties also have to be used for that purpose in relatively mild doses.

I come next to the question of deficit financing. Sir, the sum of Rs. 1,200 crores that has been mentioned in the Plan is considered by many as being excessive. In fact, economists in this country are vying with each other in putting out the bogeys or setting forth possibilities when inflation gathers momentum because of this deficit financing. I am not in a position now to say precisely what will be the amount of deficit financing that will be necessary and that will be safe. The figure of Rs. 1,200 crores does not represent a target or something which we will do or must do. It is quite open to us to revise our attitude to deficit financing if circumstances so require and it must also be remembered that some portion of this deficit financing will be neutralised by withdrawals from the accumulated Sterling Balances. The first Plan gathered

momentum only towards the middle of its course; even so, we had a deficit of approximately Rs. 175 crores in 1955-56 as against the planned expenditure of Rs. 580 to Rs. 600 crores. The average expenditure on the Plan per year in the second Five Year Plan comes to Rs. 960 crores, that is 60 per cent more than the level reached in 1955-56. A Plan of this order must inevitably cause some strain on the economy, apart from deficit financing. Even if we get foreign aid and pump in that money, still the result will more or less be the same because the economy will start creeping upwards unless there are compensatory factors found and strengthened in the economy. But it is a risk which we have inevitably to take in any case. Our endeavour will be to implement the Plan even if a smaller order of deficit financing appears warranted in the light of the circumstances then prevailing. That brings me to the key to this question of deficit financing. In the other House, a challenge was put to me by an hon. Member as to whether we want to restrict consumption in this Plan. I think that was also adverted to indirectly by the hon. Dr. Zakir Husain. May be we will have to restrict consumption but I would rather not restrict consumption of the lower income brackets; that is exactly the main purpose of the Plan and I would like, Sir, again to refer to the enigma behind our planning. Democratic planning has got the same enigma as democratic socialism because in democratic socialism we have to define the exact point at which freedom ends and regimentation starts, and the regimentation has always to be such that it can be accepted freely by people, voluntarily; and that is also the enigma so far as democratic planning is concerned.

In a country which is ruled by a democratic system, where a Parliamentary democracy functions, I know hon. Members will tell me before long: "Oh, you put up these taxes but what is to happen to the people? They are going to ask, 'why are these taxes put up'?" That, Sir, represents the basic defect or rather a difficulty in democratic planning. We have always to keep an eye on what the people think about these things and how far we can make them tighten their belts. I hold the view—that is my personal view, not the view of the Government or of the Planning Commission—that so far as this country is concerned, austerity in terms that is interpreted in certain quarters is a luxury that only the rich can afford; the poor man who already has his belt tightened cannot tighten his belt any further. Therefore, we have to think in terms of certain articles to be provided for them and I agree entirely with hon. Members who say that food and clothing must be provided for them. We will have to provide for these things and this has a bearing on our price policy. It has also to be found precisely when a rise in agricultural production or a rise in industrial production which is broad-based and the benefits of which reach a large

number of people will reflect itself in savings. The marginal propensity to consume in our people is very pronounced; but it takes time for consumption to increase. If an agriculturist has some money surplus he takes some time to decide how to use it; he may buy something if he goes to a festival but ordinarily it is postponed consumption. That is both the strength and the weakness of this economy. That, as I said is strength because we can do without certain things; If I am thinking of import control, I can stop many things which ordinarily in any other country will fall within the non-luxury or necessary bracket, because the necessities in our case are not. very big. This, however is also a weakness. Since we are primarily concerned with raising the level of consumption, otherwise planning will have no meaning. Therefore, Sir, in the regulations that we have to impose, both in regard to diversion of resources and in regard to regulation of production from the public sector to the private sector or *vice versa*, whether it is a question of inhibiting imports and expanding exports, whether it is a question of taxation for the purpose of inhibiting consumption, all these matters ultimately revolve on what we are going to give to the common man which will make him enthusiastic for the Plan. I think that the basic needs are that our price policy has to be very carefully watched. We shall use all resources that are available to us to see that prices are at levels which are reasonable. Where consumption is to be inhibited, it can be inhibited only for a period of time. People must know that any inhibition that we introduce by means of taxes or the price policy should necessarily have to be temporary because we cannot tell the people that for five years they will go without cloth or for five years they will go without bicycles, or for five years they will go without houses. I can only tell them that they must do without these things for eight months or ten months or eighteen months.

We should maintain reasonably stable prices so far as the necessities are concerned but for that purpose inevitably we will have to have some controls. Our method of controls is not physical and total controls. We are not accepting total planning for the reasons that I have mentioned before. We are not accepting total controls because of the inevitable conflict that than will engender between the State and the public, but we are thinking in terms of strategic controls. The whole industrial set-up that we are envisaging is to get hold of strategic products. Dr. Zakir Husain said that we give steel to the capitalists to fabricate, but at the same time I can say I hold the steel and I can divert it to the small men to manufacture things which are necessary. We are thinking in terms of strategic controls. We will have to impose strategic controls in regard to some of the necessities of life in order to maintain a price policy.

This, Sir, practically brings me to the end of the story. When hon. Members think that we have practically exhausted our resources by assuming a target of Rs. 4,800 crores it is not correct. Maybe, Sir, this is not a very fine mechanism that we have; it is not one of those modern diesel engines; it may be an old steam engine with a number of leaks in its boiler which take away its efficiency, but we propose to add a number of super-charges to take off the steam that comes out and then put it back again so that the mechanism will work and the engine will run. And we hope to take that engine, Sir, to the point of destination in 1960-61 when, I think, the people will feel that they are better off than before, and then take it to the next period of the Third Plan when, we hope, this country will be one of the most advanced countries of the world.

APPENDIX II

THE SECOND FIVE YEAR PLAN—SURVEY

The question, as to whether we propose to raise the consumption standards or not, has been raised, not merely in this debate, but in other debates in connection with the increase in excise duty on cloth,* by my hon. friend, Mr. Asoka Mehta. He posed the question: 'Do we propose to raise consumption standards, or do we give higher priority to investments, especially to investments for rapid industrialisation?' I am taking this point in a general way, because it covers the criticisms of my respected friend, Acharya Kripalani, and my friend, Mrs. Renu Chakravarty, in some sense and also some points touched upon by Mr. Tulsidas Kilachand in a negative sort of way.

The dilemma has existed. If we do not like the word 'dilemma', we may call it a 'matter of relative emphasis'. Basically, development is a function of capital formation, and if more capital formation is undertaken in heavy industry, in capital goods and in machinery to make machinery, less is available for investment in many other fields, not to speak of consumer industries.

The object of planning is to maximise the rate of growth of the national output over time, and to this end consumption has, to some extent in some sectors, inevitably, to be restrained. The choice is not absolute. There is no question of reducing total consumption; nor is there any suggestion that the Plan should aim at this effect. The proposal is that, progressively, a larger portion of the national output should be devoted to investments and a sizeable portion of the total resources available for investment should go into the basic industries.

The sacrifice in the matter of consumption cannot be unrelated, and necessarily has to be adjusted, to the community's capacity for it. We start with a very low living standard and a part of the increase in the national output we secure, has to go, in the first place, into maintaining the per capita living standards in a community where population increases are pronounced. I use the word 'maintaining' advisedly, because that is the primary consideration; increasing is the next consideration. We are indeed providing for increases in consumption.

Speech in the Lok Sabha on September 13, 1956, during the debate on the Second Five Year Plan:

*The proposal to increase the Excise duty on cloth was introduced in the Lok Sabha on 31st August, 1956.

In the First Plan period, the national income increased by about 18 per cent and the per capita income by about 11 per cent. The consumer expenditure, per capita, rose by nine per cent in the First Plan, and it is excected to rise by another 14 per cent or so in the Second Plan period. I cannot, therefore, accept the statement of the respected Acharya, that there has been no increase in the standard of living in any part of India, or in the villages; because the basic indications are that, in practically every centre, where there has been some activity, there has been a rise in the standard of living.

In fact, in the field with which I was specially concerned—I have visited villages, towns and various other places—in the field of small-scale industries. in the field of handlooms, etc. there has been a perceptible rise in production and living standards. We cannot say that there has been no increase in the living standards when the large community that we have today sends a larger number of children to school, when they have more amenities of which they are proud; and they ask for more. The Hon. Members may, for political reasons, deny these facts, but the facts exist and they cannot be obliterated.

Consistent with the investment targets proposed in the Plan, and assuming that external resources will become available as envisaged in the Plan, the aggregate consumer expenditure by the end of the Second Plan period 1960-61 will be Rs. 12,190 crores, out of a total national income of Rs. 13,480 crores. This level of aggregate consumer expenditure will be about 40 per cent higher, in real terms, than in 1950-51; in per capita terms. it will mean a rise in the consumption standard by about 23-24 per cent. In fact, if other things are equal, and we are able to grapple with problems of inflation, the tempo of the Plan, which, we think. would be generated, will itself help in raising these figures, rather than lowering them.

The incentive element in the prospects of increased consumption, specially in respect of harder work, cannot be ignored in a country in which living standards are low. When the rate of investment is raised, consumption will tend to rise. Sometimes, consumption has a way of increasing much too rapidly, and thus of diverting to itself resources which, from the long-run point of view, ought to go into investment of a basic type.

The question of arriving at the correct balance, within a given period, between investment in heavy industry—which matures only after a considerable time-lag—and investment in light industry, which shows up quickly in increased supply of consumer goods, is easy enough in the abstract, but it is extremely difficult in practice.

That explains why some people think that we have attempted to go too far in the matter of basic investments and some take the contrary view—we had representatives of both views in the House; Mrs. Renu Chakravarty and Mr. Tulsidas. We do not want to have an outright choking off of consumption of goods for any length of time. Regulation of the rate of increase in consumption primarily, and restrictions incidentally, when necessary for short periods, is a compromise which we seek to achieve, having in view, the needs of consumption, availability of capital, the cost of building up necessary transport facilities and the possibilities of acquiring and multiplying the know-how required. The essence of the problem is, of course, increased production and increased productivity per unit of resources. To the extent we succeed in this, the claims of consumption and investment can be reconciled, and that is a matter of organisation rather than of resources in the narrower sense.

We are thinking in terms of an investment of Rs. 425 crores in the three steel plants in the public sector. The investment might increase by the order of Rs. 50 crores to Rs. 60 crores. So far as heavy machinery is concerned, before I left my office as Commerce and Industry Minister, I had taken certain projects to a stage that, if we are going to embark on these projects, all of which are necessary and all of which will be in the public sector, we should be needing an additional investment of Rs. 100 crores during the Plan period. But, unfortunately, the results of that investment will not be apparent during the Plan period. If I put these two things together, that gives you an additional Rs. 160 crores.

We are all for plans in regard to oil development, which is very important and I am not precisely able to say today what it will cost. The oil exploration itself might cost us Rs. 25 crores to Rs. 30 crores, and if we succeed in tapping oil it will need much more. It is worth it.

We are embarking on big atomic experiments and, probably the cost will come to somewhere about Rs. 40 crores, or Rs. 60 crores, during the Plan period. All these things totalled up will provide a figure far larger than that indicated in the Planframe.

Then I come to the point made by my hon. friend, Mr. Mohiuddin—the question of consumer industries and their targets. We are in the course of revising these targets; but when we revise target figures, there will have to be a re-revision in regard to resources

available, in regard to transport available, in regard to foreign exchange resources available.

In fact, having raised the targets I have asked them to calculate the foreign exchange content in the import of machinery; and this is a matter which I have to look into very carefully, because, I will repeat once again, the first danger that we see on the horizon is the shortage of foreign exchange. So, with these considerations, I am not in a position to say today what is the target which the Planning Commission will ultimately accept for consumer industries. But the revision will undoubtedly be an upward revision; it cannot be a downward revision; it may be a selective revision; but we are not giving up the idea of revision altogether.

Resources for the Plan

That takes me to the next point, namely, the outlook on resources. My predecessor, speaking in the last session did touch upon this point, very effectively. I would only like to add to what he has said in relation to the new facts that have come into operation since he spoke on the last occasion. It is an accepted fact that the task of raising the resources required for the Plan is not an easy one. We have known all the time that there will be conditions occurring, new ideas coming up, certain adjustments in the Plan and certain gaps in the Plan, rise in costs, both of materials as well as civil engineering, which will effect the target.

Therefore, to take a pessimistic view, so far as our resources are concerned, will not be altogether wrong. But, at the same time, there are certain factors which are indicative of some hope in the situation. I would mention a few; but I hope my hon. friends will not throw it back on me and say: 'You said something else sometime back'.

During the current year fresh taxation so far as the Centre is concerned, has been imposed, which would yield about a little over Rs. 50 crores this year and which will in a full year equal Rs. 65 crores, assuming the rates are kept level, and about Rs. 15 crores from the States. That gives you, for four years (Rs. 65 crores plus Rs. 15 crores—Rs. 80 crores, multiplied by 4)—Rs. 320 crores. If you add Rs. 65 crores for this year, it will give you Rs. 385 crores.

The scope for taxation has by no means been exhausted, although it must be recognised that great care will be required in selecting the right forms and degrees of taxation. The taxation envisaged in the Plan is about Rs. 800 crores out of which, about Rs. 350 crores is expected to be met by existing taxation and the other Rs. 450

crores represent the target for additional taxation by the Central and State Governments. The Plan also contains an uncovered gap in resources of Rs. 400 crores.

As I have said before, the steps taken go to cover nearly Rs. 385 crores, out of the Rs. 450 crores. You will not condemn me as being an incurable optimist, if I say that it should not be difficult for us to cover the unbridged gap altogether likewise. There is always an increasing need for so raising the marginal levels of taxation.

Loans and small savings can go far in providing the additional resources. The State loans, from being a matter of a mere Rs. 15 crores or Rs. 18 crores in the past, have now shown a great deal of resilience. Recent experience in respect of the State loans show that allotments have reached about Rs. 68 crores. This certainly holds great promise for the future. In fact, what has been allotted to these States by way of loans in this respect is Rs. 300 crores. If we have reached a figure of Rs. 68 crores in the first year of this Plan, we should exceed the target so far as the States are concerned considerably. The record in small savings has shown a great improvement. There are, however, pockets which are still poor in the country; but, on the whole, the scope for raising the resources from this source seems to be larger than has been anticipated.

I would like to mention some of the facts in regard to the collection of these State loans, which are extremely encouraging. May I say in all humility—if hon. Members will forgive me referring to my own State [Madras]—that our experience there has been that it is not a matter of loans from a few individuals, or from a few people. Undoubtedly, the richer areas like Madras and Coimbatore have contributed more than 60 per cent of the loans, that is, about Rs. 6 crores have come out of these areas. Of course, the conditions differ from district to district. When some of the details came to me, I was particularly pleased to see that the *tehsil* to which I belong,—in which I have no interest unfortunately now—which is one of the poorest *tehsils* in Madras, has contributed Rs. 8 lakhs. This is definitely indicative of the fact that what our people could do in the matter of contributing to the Plan has been grossly underestimated.

Limits of Deficit Financing

I now come to the question of deficit financing. Undoubtedly, some reliance has been placed in the Plan with regard to deficit financing. But, in the light of the circumstances that are now prevailing, I would not say that it should be an absolute reliance.

I am not going to tell the hon. Members of this House that I am not going to see this Plan through, or that I will see it through by printing notes in the Nasik Printing Press. No. I am not going to place any absolute faith in this deficit financing. It is really a matter of circumstances which will dictate how much deficit financing we will undertake.

Of course, in an expanding economy, some deficit financing can be permitted within limits, because any increase in the volume of goods and services which will be available will need an additional amount of finance. But this itself is a limitation, namely, that deficit financing is permissible only to the extent that the needs of monetary circulation require it, and the community is prepared to hold cash rather than spend it.

The yellow signal is shown when the expenditure in the community tends to outurn, supplies, and this can be met by putting curbs on spending. It is held in some quarters that a rise in prices can be regarded as an inevitable concomitant to development. If the choice were between stability of prices with economic stagnation and some increases in prices with a reasonable economic advance, so far as I am concerned, the choice is clear. I shall certainly choose economic advance with some dangers from deficit financing, rather than perpetuate a stagnant economy for all time. But what has to be recognised is that the limit of deficit financing would be reached when the limits of our powers to check the prices of basic necessities are reached. When we say, "I can do nothing more; I have exhausted all the weapons in my armoury', the prices will go on rising,", you have a perfect right to say, 'Close down the Nasik Printing Press, unless it be that they are going to use it for some other purpose".

That takes me on to the last subject that I propose to deal with today. We had promised to make a statement in the House, in regard to the price trends, and what the Government is going to do in the matter. Now, when speaking on this occasion on the Plan, deficit financing, the question of resources, the availability of consumer goods, question of taxation, etc., I think it would be a good thing if I dovetailed my policy statement along with my answer to the critics in regard to this Plan.

Mr. Chairman, the rise in prices has undoubtedly caused a lot of concern to the people and to those who are in positions of responsibility. I must say that it has caused me particular concern. We are keeping a continuous watch on the situation, and all that I am attempting now is to make an analysis of the problem and suggest such remedial measures as we could now take, or which

I can now release without damaging the potency of those measures when implemented.

The index of wholesale prices has risen by about 23 per cent since June 1955, and this rise has been reflected, though with a time-lag and to a lesser extent, in a rise in the working class consumer price index. Money supply and bank credit, as the hon. Members will know, have shown increases, though the decline in money supply during the slack season this year has been more pronounced than is usual.

Another development which is a matter of even greater concern is the large balance of payment deficits that have been incurred during the recent months. This aspect of the present economic situation, to my mind, deserves greater consideration than even the question of the domestic price situation.

The diagnosis of the recent price trends in the economy would appear broadly to be as follows: Part of the rise in prices noticed since June, 1955, may be regarded as a corrective to the sharp decline recorded earlier. Hon. Members are aware that two years back when there was a diminution in the purchasing capacity of the agriculturists, as a result of the reduction in the prices of agricultural commodities, undoubtedly the economic indicators of consumption of certain manufactured articles showed not a decline, but a disposition to stand still.

Statistics in regard to cloth consumption indicate that in the last two years, the *per capita* consumption stood stationary at about 15 yards. But between April 10, 1954 and June 4, 1955; the index of wholesale prices had fallen from 404 to 341. The latter, of course, is an abnormally low level, and a reversal of this trend upto a point should therefore, be not unwelcome. The upward trend has, however, persisted over the last twelve months and more, and the situation, on the whole, is one which warrants careful stock-taking and the adoption of measures to hold in check the development of undesirable trends in the economy.

In part, the rise in prices is attributable to a shortfall in the production of foodgrains. I well remember that two years back—I suppose I was speaking in the other House in regard to the general economic situation—we made the claimed, and justifiably so, an increase in the production of foodgrains by about 5 million tons. But, in 1954-55, the production of foodgrains was 2 million tons less than in 1953-54, and in 1955-56 the estimates available indicate a further fall which may be in the region of about 3 million tons. This would naturally react on prices, and as is well-known, a relatively small decline in foodgrains output is apt to result in a considerable

reduction in the marketable surplus and, consequently, in a disproportionate increase in prices.

We will have to remember one fact all the time. Whatever we might do, within a measureable distance of time all that we can achieve will be a marginal surplus in food, and that we must achieve. We must have an increase of 40 per cent in food production, with an increase in population occurring all the time, some increases in the standards of living and with urbanisation. This would certainly mean that, even if we achieve these targets, there will be only a marginal surplus of food. Therefore, all the steps I am indicating, and which we are now taking, will have to be taken continuously without any diminution in vigilance.

The increases in national output in the last two years have been smaller than over the first three years of the Plan. On the other hand, money supply went up by Rs. 390 crores in the last two years of the Plan out of which Rs. 264 crores was in the last year. This increase in money supply has been associated mainly with increased public expenditure, reflecting the higher tempo of developmental activity in the public sector. There has also been an increase in bank credit to the private sector, especially in 1955-56.

Thus, increased spending by Government, as well as a larger volume of credit expansion by banks at a time when agricultural production has been more or less static, may be said to be responsible to some extent for the rising trend in prices.

The rise in prices over the last twelve months or so has been most noticeable in the case of agricultural commodities, while the index of manufactures has shown a comparatively small rise. Thus, the upward movement of prices has not been uniform, and it has to be borne in mind that in an economy which is preponderantly agricultural, there are bound to be, from time to time, somewhat larger fluctuations in prices than one expects in highly industrialised economies. The trend of world prices is upward, and this in turn gets reflected in some of our own prices. Speculative holding of stocks, in anticipation of further price rises, has also played a part in raising prices.

On the whole, while there are no clear signs of the emergence of a general inflationary situation, there are vital points of the economy which are under pressure because of technical demand-and-supply considerations and of the rising tempo of developmental expenditure in the economy.

Foreign Exchange

These developments have also to be viewed against the background of our foreign exchange position, which has deteriorated

sharply of late. The foreign assets of the Reserve Bank of India declined from Rs. 748 crores and odd on the 30th March, 1956, to Rs. 634 crores and odd on the 31st August, 1956. An adverse balance of payments over the year was, of course, to be expected in consequence of the large volume of imports required for the developmental programmes in the Plan, notably steel and capital goods.

Nevertheless, the present rate of decumulation of foreign exchange reserves is too rapid. The fact that the second Five Year Plan envisages a substantially increased level of outlay in the public sector and high investment rates in the private sector indicates that high priority has to be given to the ways and means of conserving and enlarging upon the country's foreign exchange resources.

Some corrective measures have already been taken. Exports of foodgrains have been banned and releases from Government stocks have been continued. In many States, fair-price shops have been opened. The balance of payment deficits in the last few months have tended to reduce money supply—I have mentioned above that the drop in money supply was larger than is usual in the slack season.

The balance of payment deficits have tended to reduce money supply and the Reserve Bank has taken action to reduce bank advances for speculative purposes against paddy and rice. The conclusion of agreements with the U.S.A., for substantial imports of foodgrains under P.L. 480, and with Burma and China for imports of rice, will ease the position in the near future. Foodgrain prices have already registered a fall at some centres, particularly in the north. It is hoped that with the coming in of the new harvest, the price trends will show considerable improvement.

Government, however, do not think that the recent trends in prices, in money supply and in the balance of payments need in themselves cause undue or immediate anxiety. I would like to lay particular stress on this fact. In fact, I do expect that during the fall of this year, the trend would be a little less pronounced. But even so, our resources being what they are, they are certainly indicative of the fact that conservation of foreign exchange resources has to be undertaken from now on.

These trends need not cause any immediate anxiety, but they are indicative of the sort of stresses and strains that might develop in the course of the implemention of the Plan. They should be prevented to the extent possible, and corrected if they cannot be prevented. The question is not one of meeting a temporary adverse turn somehow or the other; it is one of getting on to, and maintaining in the face of increasing pressures generated by the Plan, a new and more stable position of equilibrium.

It is possible to equate demand and supply by slowing down investment. Such a policy would, however, be contrary to the expansionist approach of the Plan. In fact, it would be contrary to the spirit of the Plan. Development is in the last analysis a process of generating new and cumulatively increasing demands, and of finding ways and means, through more effective development of resources, of increasing the supplies available in the system to meet these demands.

Remedial action at this junction should not be so severe as to inhibit the deeper and more abiding trends which the Plan is seeking to establish. A downward revision of the Plan has, therefore, to be ruled out.

In the present situation, a general credit squeeze is not warranted. Selective control of bank credit, with a view to checking speculative investment, has, however, to continue and will be strengthened as necessary, so as not to affect adversely genuine investment in the private sector. The area allotted for the private sector today is more or less intimately connected with the production of consumer goods and any restriction which will inhibit the production of consumer goods is likely to deepen the stresses and strains that now appear in the economy.

In the fiscal field, the requirements of the immediate future, as well as those of the entire Plan, can be met only by well planned measures of direct and indirect taxation, to channel into the public Exchequer a large proportion of the incomes that are being generated. I shall not deal with this vexed question of direct and indirect taxes. I think all taxes are good so far as the Finance Minister is concerned and, therefore, I shall not allow myself to be unduly fettered by this dichotomy of direct and indirect taxation.

If there is any scope for direct taxation, undoubtedly we will tap it. But indirect taxes, by way of excises or sales taxes, are not altogether undesirable whenever the pressure of demands on limited supplies threatens to open out large possibilities of windfall profits. Where supplies are short and cannot be increased quickly, the consumer has necessarily to pay higher prices, but taxation of this kind diverts at least a part of the resulting profits to the public Exchequer. Likewise, in such circumstances, large profits are made, and it will be necessary to devise measures of direct taxation to draw these into the public Exchequer.

Fiscal and monetary measures will go a long way, but in themselves they may not be adequate. Nor is it possible to rely on larger imports or curtailment of exports for the purpose of easing price trends. To import goods in order to increase the supply of goods is not possible in the present circumstances, because I cannot

allow, with the limited exchange that we have, the use of our exchange resources for any large import of consumer articles, other than the basic article, namely, food.

The need for controlling prices, and securing a fair distribution of available supplies of basic commodities—consumer goods as well as producer goods, becomes all the greater in this context. Government do not propose to introduce—I would like the House to mark what I say—elaborate physical controls like procurement on a large scale and rationing; but strategic controls at selected points, coupled with restrictions on movement and some form of controlled distribution, may have to be adopted.

Government also propose to build up buffer stocks in foodgrains. I have already indicated before the sources from which these supplies are coming in the immediate future, and I shall certainly give a high priority for the import of foodgrains even at the risk of banning imports of other commodities. Hon. Members may feel assured that we shall keep the buffer stock position of foodgrains well in hand. The basis of this buffer stock is a determination on the part of the Government to regard the maintenance of stability in prices and of reasonable relationships between sectional prices as of great importance for the successful implementation of the Plan.

The recent trends in the economy reflect, as I have stated earlier, an increased pressure of demand generated by rising incomes consequent on the Plan. It is, in fact, the object of the Plan to raise incomes and to increase demands all round. As incomes rise and demand is stepped up, production must rise correspondingly. Basically, and over a period, the need is for increased production.

In an economy in which consumption standards are low, increased incomes reflect themselves in higher demand for necessities of life such as food and cloth. It is the prices of those commodities in particular that must be kept at reasonable levels. Maximum effort to step up food production is called for on considerations of prices as well as of foreign exchange. Textile production has also to be stepped up, in view of the increasing pressure of domestic demand and of the urgency of promoting exports. The latter aspect is paramount at this stage and for the period of the Plan; and steps are under active consideration for achieving an increase in the output of both food and cloth.

At the same time, it is necessary to bear in mind that, if the rate of investment in the economy is to be increased, consumption has to be regulated. The Second Five Year Plan postulates a concerted effort to raise the resources required and to get the best results for the investments undertaken. This object is to be pursued steadily,

and the necessary sacrifices have to be made. Current consumption standards can, therefore, be allowed to rise only moderately. The object of developmental planning is to secure the best results possible over a period and this cannot be done unless a measure of restraint on consumption is accepted.

I have already mentioned that conservation of foreign exchange and measures to increase foreign exchange earnings have to be given top priority throughout the Plan period. The Planning Commission is examining the phasing of foreign exchange expenditures in connection with the import programmes of the public sector. We would also equally try to see how we can phase expenditure in this direction in the private sector. These measures should help.

But, the main task is to implement the Plan as a whole, to reduce to a minimum non-developmental and non-Plan outlays, to persevere in the effort for raising the resources required, and, in general, to increase the effectiveness of the large investments that are being made, both in the public and in the private sectors, so as to increase outputs all along the line.

That brings me to the end of my story. But I would like to make one appeal before I close. The Plan itself demands, and I hope it will get, the greatest measure of public co-operation. In respect of the several sectors of the Plan, the call for public co-operation will have to be made from time to time by leaders. Such co-operation is both desirable and necessary in the present context of events, for we shall need all the public co-operation that we can get, in order to put down the incipient signs of inflation.

In regard to the prices of essential commodities like food and cloth—in the absence of total controls which we are seeking to avoid—public co-operation is the only effective answer to these trends. I am, therefore, asking the people of the country, this hon. House, and particularly the people of those sections of the country where we see that prices are rising, to pass unto themselves a self-denying ordinance, and to restrict their consumption, wherever possible.

In the face of speculative activity, which engenders price increases, refusal on the part of the public to pay higher prices and, on the other hand, to restrict consumption to the minimum is the effective answer to the activities of the anti-social elements that cause such price increases.

It is difficult in all conscience to curtail consumption of food articles, but it is not altogether impossible. It is relatively easier for the public to postpone the consumption of cloth. Given some

more time, Government would certainly be able to arrange for the production of more cloth, because cloth production is not so much subject to the vagaries of monsoon as food production.

All that I am asking the people to do, is to postpone a part of their consumption of cloth for the present. So far as food production is concerned, I am happy that my colleague is here, and I can assure the House, on his behalf and mine and on behalf of the Government, that all that can be done, all that man can do, will be done. But, we cannot altogether ignore the fact that agriculture has always been in the past, and to some extent still is, dependent on the monsoon. Until we take the Plan a stage further, it will continue to be a gamble on the monsoon.

I repeat, once again, Mr. Deputy Speaker, that the success of the Plan in the initial stages will be dependent wholly and entirely on the amount of co-operation we get from the public, and that is all that I am asking them today.

APPENDIX III

THE PLAN & PRIVATE ENTERPRISE*

Mr. President, Your Excellencies, Ladies and Gentlemen,

At the outset I would like to express my gratitude to you, Mr. President, for inviting me to be your Chief Guest today. As you have stated, I have been here on two previous occasions, and I am almost an old-timer. You have pointed out the importance of this Chamber to me as the custodian of the finances of this country. In fact, you have said that your group happens to be the single largest group paying taxes, and pays this year about 20 per cent towards sustaining my Department. Well, if for nothing else, I should see how one of my big customers is faring and, therefore, I am particularly grateful to you for inviting me here today to meet the members of the Chamber, and to exchange my ideas and thoughts with them. May I also, if I am not being presumptuous, offer my congratulations to you on your speech which has departed far away from the trodden path of presidential addresses. You have brought into it a characteristic which I admire, probably because I like to imitate you there, that is, of being unconventional, and you have brought in what we sadly lack—not only in this country but in several countries of the world—a sense of humour in judging the problems before us and in facing the difficulties that those problems create. Having said that, I would also like to express my gratitude to you about what you have said about the Plan.

I have of late become almost a self-constituted propagandist for the Plan. That is because we think, I think very rightly, that the future of this country is inextricably connected with the Plan. The Plan tells the outside world what we want to be done, what has to be done and what must be done if we are to save India for democracy. It is not often realised that the Government of India, in embarking on a plan of this nature, is merely following an imperative. The consequences that flow from our pursuing the Plan, almost with a fanatic enthusiasm, are many, and some of them are certainly consequences which might have serious repercussions on the future of this country. It is not that we are unalive to the dangers that this Plan will perhaps generate. At the same time, I would like only to underline what has almost

*Address at the annual meeting of the Associated Chambers of Commerce, Calcutta, on December 10, 1956.

become hackneyed today—so far as an appreciation of the Indian situation is concerned, I am very glad that the Chamber has completely identified itself with us in this regard. I do not know how many people realise that India is the biggest democracy in the world. Well, it is a matter to be proud of and I am glad that you share with me that pride, but again it is almost a position which is difficult to sustain for long in the face of the grinding poverty that is the lot of the masses of people in this country.

I would state once again what I have stated on several occasions, both in Parliament and outside, that the dilemma before us, the dilemma of the Plan is how far we can sustain those features that go with democracy, such as the freedom of the individual, and also see that the economic condition of those individuals is bettered by taking them along the path which might look like being a regimented one, but nevertheless, which would indicate to them a direction in which they could improve their own position.

Therefore, while we recognise that there is this dilemma, we would like to hold the bull by the horns, as it were, and get through the dilemma, and that is why it is extremely pleasing for me to hear what you had to say about the Plan and the Plan objectives. Of course, it means that we have to do many things as a Government and as a people without expecting immediate returns, and, as you very rightly mentioned, appeal to spiritual values is of no use unless the pudding goes with it. At the same time, there are certain values which are not merely material, in fact, in that correspondence, which unfortunately got a lot of publicity, between the President of the International Bank and myself, I had to state that our judgment of values is slightly different from that of persons in countries which are highly developed and which are rich. So if it is merely a question of my offering the pudding at every stage to somebody whose cooperation I desire, well, I won't have enough to pass round.

Therefore, certain values are necessarily to be stressed, which are not definitely material values and that is where we try to translate our ideas towards the building up of a society which I suppose is compendiously called a socialist society.

I cannot see how, at any rate, a large part of the members of this august Chamber could take exception to our stating our objectives in these terms, because you have stomached a Labour Government for quite some period. You might even flatter yourself that the objectives that we have indicated in our Plan and the speeches of our leaders have a close resemblance to the ideas that

your Labour Party has, with certain modifications, which perhaps might in the long run prove that we are slightly wiser. Well, the future must prove who is wise; but to a British audience, and I suppose the bulk of the audience here happens to be British, I think I would not be offending your ears when I say that a socialist objective, so far as we are concerned, is an imperative. Because there could be nothing else. The one common feature in this country is poverty, and the poor man does not tolerate, as you very rightly mentioned, Sir, the ostentatious exhibition of wealth. Well, the manner in which we are proceeding towards the building up of this society, about which I spoke last year also, is something we have not very clearly laid down, excepting indicating the direction. I think, it will be wrong for us to say that these, these and these are the steps which we will take irrespective of the consequences.

We have to change; the direction will remain, the pace might be dictated by the circumstances. Certain deviations might be made but essentially we propose to proceed, at the end of the Plan period, to a position when perhaps we can feel that we can justify the rigours that we have imposed on the economy, and the sacrifices that we have asked for from the people, which have been given, and also indicate to them that the second Plan will lead to a better third Plan which will provide a greater satisfaction to the large mass of people in this country. As I indicated, Sir, there are perhaps several methods in regard to this Plan, several changes which we are making from time to time, which seem to an outsider to have political implications, or, appear as attempts at playing to the gallery. Well, the dividing line between carrying the people with you in all that you do and playing to the gallery happens to be extremely faint. One of the leading commercial journals of this country, characterised certain actions of mine as being unexceptionable from the economic point of view but certain others as indicative of a desire to play to the gallery. But, as I said, it is purely a subjective analysis, when you declare that a particular person is playing to the gallery, or, if you say to the contrary, that that particular person is trying to carry the people with him.

As you said, in a democracy we have to think of the ultimate verdict of the people at an election. It may be that many of us are not very keen to get back. There may be people who do want us to be there and there may be others who do not want us to come back. At the same time, you cannot merely be angry with them and say, "All right, do your work and I shall go out". Because a job of work has to be done and therefore we have to see that the people appreciate what we do, they accept our bona fides and therefore they are willing to make the sacrifices that we ask them to

make. And if we neglect the popular will in a democracy of this nature, we shall be doing so at our peril.

Sir, that again explains, as you have very rightly said, why our Plan is ambitious. It is often said that it is utopian. Even our friends and well wishers think that we are trying to do far too much in five years. But, if you forecast the results of this Plan, assuming these results are those which we envisage, it does not seem anything very big. What we are trying to do is to raise the rate of investment from 7 per cent. of the national income to about 10 per cent. by the end of the Plan period, and it compares not very favourably with certain attempts made in some of the other countries of the world which are also undeveloped or under-developed.

According to the Plan, the total investment over the 5-year period has to be Rs. 6,200 crores—Rs. 3,800 crores to the public sector and Rs. 2,400 crores to the private sector—and this as I said would mean a stepping up of our investment by something like a little less than 50 per cent. and therefore it is necessary for the central objective policy of the Plan to be a steady enlargement of the investible pool.

Well, how is this to be done? I remember, Mr. President, your mentioning to me, on one of the occasions that you came to see me in Delhi, that foreign investment in this country needs some more reassuring statements from us than those we have made so far. It may be that the confidence in this country has been shaken by some of the acts that we have done, which have not been properly understood. And, therefore, I am very grateful to you once again for the emphasis which you placed in your speech on the need for confidence in India, confidence in the Indian nation and its ultimate destiny. That confidence can be generated by and large by a proper utilisation of our resources and building up sufficient capital in the country which can indicate to a foreign lender or a foreign investor that the currency of the country, the credit of the country, will certainly be preserved.

Therefore, may I humbly submit to you, this august audience, that some of the efforts that we have undertaken in the public sector are directed towards this end of creating confidence in the country and its creditworthiness. If, as I am now dreaming, and it still remains a dream, we bring into being three steel plants which, in the aggregate, can produce about four million tons of steel ingots at a cost of about Rs. 450 crores, would it not be right for me to say that the creditworthiness of this country is something which has to be judged from that investment and what will be produced therefrom? In fact, we have heard of several backings for currency in

the past. Lately, I have heard a very queer story, that the future currency in the world should not be linked to gold but to oil. Well, I do not know how it will come to pass, but it does seem interesting because oil does seem to dominate the politics of the world today. I am not now thinking of oil so much as of steel. I think the confidence of the people outside in this country must depend upon our ability to produce our basic raw materials in this country from the money that we are now investing.

I would certainly like to say a word about foreign investment. I have no doubt in my mind that such investment is needed, particularly at those points where our domestic resources, financial, technical or managerial, are inadequate. It has been said not only by you, Mr. President, but by other people also, that our attitude towards foreign investment and foreign capital has to be re-stated.

The factors that do not encourage foreign investment in this country are well known. We have had a few surveys made of late and we have withheld from the foreign visitor nothing in our economy, even those aspects of the economy which perhaps detract from the merits of the economy in regard to foreign capital investment. I have had recently, through the collaboration of the Ford Foundation, an assessment made by an American economist. I have not even met him, so I could tell you that I haven't tried to influence him at all. I think the booklet produced by Mr. Garvin of the Federation of British Industries is sufficiently objective. Perhaps one or two things that he says therein are not complimentary to us, but I am accepting the assessment as a whole, and there it is, an assessment of the future of foreign capital in this country and also an appraisal of the motives that made Government do certain things which Mr. Garvin thinks are necessary in the Indian context.

As I have said, we have stated this question of foreign capital investment in our policy statements in the past. I still refer to the statement of the Prime Minister in 1948, which to all intents and purposes still holds good. We have said there that each investment proposition will be examined on merits, in terms of the contribution that it is likely to make to the furtherance of the developmental process. We have also said that once foreign capital comes in, no distinction is made between foreign and domestic capital and both are treated on the same terms. Speaking for myself, I am not opposed to foreign capital. I welcome it, if it would come on the terms that we have indicated.

I am not even concerned about prescribing a rigid percentage, because often when you say 49 per cent foreign capital and 51 per cent Indian capital, it means nothing. Sometimes a company

can be controlled with 20 per cent. capital—51 per cent. does not give the control; sometimes 20 per cent. gives it. Therefore, we are not bound to any particular rigid formula in this connection. The formula, if there is one, will change according to the circumstances of each case.

But I am not the only nigger in the wood pile. There are others. I would like to mention to foreign capital that wishes to come to this country or that is interested in this country, that so far as Government are concerned they welcome it, but it has to make its peace or its terms with indigenous capital and indigenous enterprise. Because it is not Government that has been standing in the way of foreign capital coming, it is the indigenous capitalist that does not want it. So, any person, who thinks that Government seek to put a check on foreign private enterprise entering this country, I would humbly submit, is wrong. It is Indian private enterprise that is probably not allowing it to come in on terms which are reasonable. But anyway, as between one sector of private enterprise and another, it is for them to settle their terms. I am now stating categorically in a forum of this nature, that foreign capital which is interested in this country has only one bar beyond the terms which we have indicated, which I think are not onerous, that is the acceptance of foreign capital by Indian private enterprise or free enterprise, if you would like to say so.

Mr. President, you wanted me to deal with a number of subjects on which you did not touch and, therefore, I take it you do not want me to deal with the subjects on which you have touched. Well, I shall certainly take this question of taxation to which you have referred. Here again there is no such thing as an optimum, or rather the optimum is a moving one, it is not a stable optimum. In fact tax measures and taxation that is considered quite impracticable at one time have often, in the course of time, won not only acceptance but, as you have rightly mentioned, even respectability. The fact is that you get used to a person, or even a foreign body, in your system, you develop a tolerance for it. I suppose that is the case with income tax; in the early stages it was considered to be an unpardonable encroachment on the liberty of the individual and particularly private enterprise, and today, if there is a country without income tax, you will probably consider that country to be barbarous. Even communist countries have a 10 per cent. or 7 per cent. or 5 per cent. income tax, though it might mean nothing. But I recognise that it does not mean that there is no such thing as the last straw. There is force also in the argument that if the net return which enterprise gets in one country is seriously out of line with the return that it can get elsewhere, it will migrate.

You have mentioned high pressures and low pressures and I recognise that it has a validity in our scheme of things. May I add, Mr. President, that enterprise is also subject to certain civilising and socialising influences and is capable and, may I say, in fact is becoming more capable of responding to incentives other than monetary gains.

Well, it is not that I am trying to cross swords with the President, but it is certainly true that the least taxed countries in the world are not always the most developed, and taxation has to be judged with reference to the purpose for which it has been imposed. I might even take refuge under the truism that the public Exchequer does not retain anything to itself and gives back all it takes. In fact, as a burglar I am the most altruistic of burglars. My only hope is that I shall be able to wear soft rubber gloves and soft rubber shoes, so that nobody will detect when I am committing the act of burglary. But I suppose the tolerance you develop for a person of my character is that I keep nothing to myself. Well, human beings always have had some admiration for the Robinhoods of the world. I don't say that the Finance Minister of India can be such a colourful personality as Robin Hood. Any way, I accept the charge in the spirit in which it has been made and I hope I shall continue during the time that is allotted to me as Finance Minister to be a good and altruistic burglar, but a burglar nevertheless.

On the question of taxation, Mr. President, my main problem is to find the finance for implementing the Plan. The Plan Report has put forward a certain scheme for this purpose. Even before that, the Taxation Enquiry Commission had indicated the direction in which we can proceed in regard to augmenting our tax revenues. But unfortunately between the targets we have set for ourselves in the Plan and the targets the Taxation Enquiry Commission had set for us, there is a wide gap.

Therefore some further attempts have to be made to increase our tax resources. Our estimates have gone up by about Rs. 450 to 500 crores, over the first estimates of the Plan. Correspondingly more finance is needed. Of course, you will concede that this cannot be found unless the basis and structure of taxation are suitably altered. I recognise that we cannot always get more by increasing the tax burden on the few, but we cannot easily tax the many, especially when they have so little to spare. If the few, who have more, are not required to make their due contribution, well, we shall be without any money.

There is one point of agreement between you, Mr. President, and myself. I would like to lay stress on this. That is, that in the

future set-up, that we are contemplating, we shall be creating a much larger number of bureaucrats than exist today. Perhaps the bureaucrat is not liked, he is liked less than or disliked as much as a rich man. Even so, no planned economy is possible without an increase in this particular tribe, but whether it is a bureaucrat or an assistant who wants to become a director, or a director who wants to become an assistant in short, any member of the salariat, I must say I have some sympathy for him. My sympathy arises from the fact that, apart from the Associated Chambers which contribute about 20 per cent. to my income, my main income comes from people who have fixed salaries, where we deduct income tax at source, or compel the employer to deduct income tax at source. I think it would not be a statement which is far outside the mark to say, that about 95 per cent. of these people pay the taxes that are due from them. If only I could make the people in this country pay 80 per cent. of their dues of taxes, I think I can augment the size of the Plan by at least 25 per cent.

Well, my ideas of tax evasion are slightly different from those of the Central Board of Revenue. So I come back to what I was saying, that I have a great deal of sympathy for the salary-earner because he cannot escape from the full rigour of the tax rates. I am also glad that you mentioned, Mr. President, that the earned income taxation needs some amount of overhauling, but this is not a matter which can be tackled by itself because it raises a whole lot of other questions which must be sorted out and solved, before I can take any positive action.

I said the other day in Parliament that our direct tax system has got into a groove and we must broadbase it if we are to achieve a system which will progressively increase our revenue resources with as fair an incidence as is possible. Taxation policy has also to be linked up with a broader investment policy which in turn has to be geared to the fulfilment of the Plan target. May I say, Mr. President, that this, broadly, is the rationale behind the recent taxation measures that I have put before the country? May I ask why is it that certain countries which are not much better off in the matter of living standards or the production potential than ourselves, but have a different socio-economic pattern, are able to devote a larger part of their current output to investment than we are able to do? It is not a question of copying the techniques of resource mobilisation from another socio-economic pattern. But it will not do, so far as I am concerned, in a world which is changing and therefore the world in India which I want to change, for me to adopt the attitude of an ostrich and say "Well, I shall follow the same path which somebody in the United Kingdom laid down as the correct one at the beginning of the 19th century". I am sure the members of the Chamber would

like me to say a few words about these taxation proposals. Even in those journals and newspapers which have been rather tolerant as far as I am concerned, whether purely for personal reasons, or because of reasons which carry a certain objectivity with them, they have said that I have not stated the full case and perhaps they have also said that there is a certain amount of non-sequitor in the arguments leading up to the proposals for taxation and the explanation of the tax proposals themselves. Basically, the attempt is to reconstruct the tax structure in this country. If that is being an interventionist, I plead guilty to being an interventionist. Yet nobody can do anything so far as the large mass of people like the people of this country are concerned without being an interventionist. At the same time, I disclaim all ideas of arrogating to myself the position of Providence. In fact I dislike anybody who thinks that he can order the lives of their people for all time to come, and begin preaching with a series of "don'ts".

Autonomous organisations, which plead for full autonomy in regard to their actions, have no place unless their autonomy is geared to the Plan objectives and, as I have said, my main reason for putting up these proposals or some part of them at any rate is to alter the nature of the tax structure of the country. It is not a matter which can be done in a few months. It will perhaps take some years, but in any event I would like to say this (I hope my masters in Parliament will not take offence at my announcing what might look, like a policy decision elsewhere): Whatever we do in regard to the reconstruction of our tax structure, the augmentation of our resources will have to be done fairly early in the Plan period. There is no point in my saying that I will do something in the fourth year of the Plan or the fifth year of the Plan because it would not give me anything for the Plan. It might give something for the next Plan. One of the taxes which I have imposed has come to stay, *i.e.*, the Capital Gains Tax. Perhaps it is not a perfect one. It may be that the yield now or in the near future would not be very considerable, but I think it is very essential in an economy which we expect to be dynamic, where however much we might curb its inflation, there will be a certain appreciation of property values, that some portion of this gain, a small portion really, should go to the State which has created the conditions for the appreciation of these property values. It may be that it might require some amendment, but basically it will remain in that form. It will not, as people that know have understood, enter the realm of the super-tax. It is confined to the income-tax area, whatever it might be. But I think the predominant concession that we have given therein is that we shall tax capital gains of any one year or three years. It also lessens the increase in the slab for the medium income people and also makes it easy for them to pay the tax.

The next tax measure is the Dividend Tax. It is not a new tax, we started off with it earlier. We had to raise it for various considerations, not so much to get the tax revenue as to increase resources, because the dividend tax is connected with a scheme of control of reserves. We want more money to go into investments and therefore we have had to put a check on the payment of profits by way of dividends. I leave it to the companies concerned, they can either pay the tax or put their surplus profits into reserves. I thought of an excess profits levy, I thought of a dividend limitation measure, but I felt that both of them were imperfect tools and often cause more hardship, more harassment than we seek to impose on the business community. Undoubtedly it will have an effect on the share market. I suppose it is true that all Finance Ministers are partial to the tribe of bears. I remember very well a very distinguished predecessor of mine in 1945, when he was accused of being partial to bears, said he would always continue to remain a bear so long as he was Finance Minister. Well, somebody loses, I cannot help it. Somebody loses merely because somebody else is so quick to read the mind of the Finance Minister or the Government of India; merely because a statement is to be made at 4·30 in the afternoon, they start operating at 1·30. We cannot help that in this present era of free enterprise.

Then, I am told that this question of control over reserves is causing a lot of misgivings in the minds of the people. Well, you probably judge us from what we have done in the past. I am grateful to you, Mr. President, for letting us down rather lightly over the Company Law Administration and the Company Law's objectives, but I can give this assurance to the business community as a whole that what I seek to do by means of this control over reserves is to see that reserves are utilised in directions which would mean that it will be easier for us to fulfil the targets of the Plan.

I have mentioned Rs. 2,400 crores as being what we want from private investment. Of course, not all of it is going to be industrial investment, a very large portion of it, perhaps very nearly half of what we consider to be private investment, is in the shape of houses. Even so, the demand that we are making from the private sector for investment is quite considerable, and the money has to be found. There is no point in money being multiplied, for money running after well-run enterprises where there are reserves, so that these reserves can be utilised for seeking to get control over other well-run enterprises. In fact, I think I might put in a very humble claim to be considered a friend of well-run enterprises. I do not think any good enterprise would find any difficulty in getting the money which we ask it to deposit for either a ways-and-means position, if they do not have the capital, for payment of loans where it is necessary, for

modernisation of their plant, for expansion of their plant or even for investment in other directions which Government consider to be desirable and necessary.

The administrative rigour, so long as I am here, will certainly be modified, and even if I am not here, whoever is in-charge will see that quick decisions are given.

Anyway, it is an experiment in the direction of utilising the surplus over a larger area—a surplus which we think companies can provide for investment in the Plan. You might say that supposing we do not utilise it, will the money remain with the Government? Yes, it will. Will that not help the Government? It might. But it is up to you to utilise the money. The challenge is here, you can use it. But, if I put any obstacle in the way of the proper utilisation of the reserves by the concerned companies, then it is for you to get up and say, "Oh, yes, you have been doing this for a nefarious purpose; namely, you want to develop the public sector at our cost". That is not my intention and that would not be our intention during the Plan period because we have a sector earmarked for private enterprise in which you have fairly free elbow room. I do not want to speak at length on these measures excepting to say that so far as the administrative machinery is concerned, we shall try to evolve one which will give you quick answers to any query that you may put and quick decisions in matters which concern the reserves; and in any event until we know exactly where we stand we should work these new provisions very liberally. I would also like to say that in regard to publication of the rules, we shall certainly consult the Associated Chambers and other interests who are affected before finalising them.

Another point that you raised was about bank finance, and that brings me to one of the most misunderstood parts of the Finance Bill, namely the attempt to raise the Stamp Duty on Bills. It is not merely my intention, it has been my endeavour, to see that the circumstances that are now operating to restrict the amount of credit available to you, should be overcome. I had two meetings with bankers, one at Bombay and the other at Calcutta. I am very sorry to say that I have not had much of a response from the banking world, not that I have any monopoly of wisdom, but they seem to share my own incapacity for thinking out ways and means to get over a difficult situation in such difficult times. I have not had a single constructive suggestion put forward from any banker, official or unofficial. Well, the obvious thing to do is to ask the Reserve Bank to be free with their free discounting facilities. I have been trying to make them do that. I have been also trying to get some idea of what they are doing.

At the same time, we cannot altogether forget the fact that the economy itself is under pressure. There are various indications which do show that a certain amount of incipient inflation exists. Perhaps a portion of that has been overcome, so far as the monetary aspects of it are concerned, by this large imbalance in our foreign trade. The very large amount of goods that have come into the country has mopped up the appropriate amount of currency from the hands of people who have bought those goods; we have financed this from our sterling balances. It is also true that there has been an artificial constriction in the amount of money made available for the State loans. Perhaps it is equally true that business has expanded and more business now wants more money for its finance. It is perhaps also to some extent true that the banker, who advances money, is not doing it for the conventional purposes, namely, for short-term credit. But quite a lot of short-term credit is really a camouflage for medium-term credit, like investment on goods which take time for consumption, sometimes investment in industry on plant and equipment which will not be returned until the plant goes into production. These factors are there. They have been mentioned to me, I have taken account of all these, still we cannot go in straightforwardly for expansion in the monetary area without some checks and balances.

The normal thing would be to raise the interest rate, while at the same time expanding the bill market facilities, but there are certain extra-banking considerations which prevent us from doing it. Perhaps we should have done it earlier. Perhaps the climate which we should have created for purposes of raising the bank rate was not created. But I do not propose to accept that remedy as one that I could adopt now. Perhaps ultimately it will be done by the Reserve Bank.

My object in raising the Stamp Duty was, partly, in so far as expansion of the bill market was concerned, to see that the surplus profits that a banker would make, because he would charge the rate of interest that the market would bear. It is no use saying that all bankers are altruistic, they want to preserve their customers and therefore you have what is called a class of prime borrowers who borrow at prime rates for all time to come—it is certainly true that the banker will charge a rate that the market will pay and I don't see why some portion of it should not be taken away. It is a matter of no concern to me whether the banker pays the bill stamp money or the customer pays. If the banker is making a big profit he will pay out of his profits because he wants to retain his customer and there is competition. If the customer needs the money, he will pay. It is a matter well known to private enterprise and it does not want a Finance Minister to dwell on the operations of the money market

and the relations between a banker and a customer. But one must recognise that the rate that has been fixed is only the ceiling, and not the floor. I do not want to explain the elementary ideas of how a fiscal measure of this nature, with essentially monetary objectives can be operated. I think, professional bankers will certainly know more about it than I do and I leave it at that.

So far as our other measures are concerned, I am happy to see that, by and large, the Press in this country supports them; because the foreign exchange position being what it is, it is certainly necessary for me to take some steps. At the same time, I would not like to harp on this very very difficult foreign exchange position and say that the Plan might break on this rock. It may be to some extent that I am like David Copperfield's Micawber, waiting for something to turn up round the corner. All Finance Ministers are. But, if it is a question of the Plan being given up or its targets revised, or in the alternative, of our tightening up our belts, well, I should be prepared to tighten our belts. It may be that in regard to certain imported articles there will be a lot of profiteering, that would generate a certain amount of inflation, but still it would not be anything very serious so long as inflation does not permeate the field of what you might call the necessities of life like foodgrains and cloth. It does not matter very much to me if people have to pay Rs. 20 more for a bicycle or 6 annas more for an electric torch. Inflation in that category does not hurt me very much.

But the position so far as foreign exchange is concerned is known, because we publish statistics. We have drawn rather heavily on our sterling balances. But I would like to say this—I have seen reports in certain newspapers in the United Kingdom that India has been indulging in an orgy of imports of consumer goods. It is either that they wanted to spread the story or they are not able to read the figures, the people who wanted to spread this story. We have not imported consumer goods even 1 per cent more than what is normal and what is necessary. The entire imbalance has been created by the import of iron and steel and capital goods and some of the necessities. We can tighten up our belts even in these directions, but I do not think that there is any need for scare.

And, in this connection I would like to state two facts, which probably are worth being stated. One is that we have had a large measure of assistance in holding our foreign exchange position in a reasonably stable condition, not merely now, but in the near future, because of the assistance we got from the U.S.A. under what they call Public Law 480. The nett foreign exchange content of that assistance is rather difficult to assess but in the gross it has been somewhere about 170 crores of rupees. The second fact relates to the correspondence that I have had with the President of the World

Bank, Mr. Black. Whatever comments people made on it and I am very grateful for some of the comments made in foreign countries which certainly had a bias in favour of India and the Indian Finance Minister—I never felt that there was anything in it from the word 'go'. After all he was a banker and I am a client. There is another relationship, I am also a partner in that bank. Anyway, we have had a certain amount of discussions with World Bank and the result of all that has been that we shall be getting substantial help in regard to the foreign exchange content of our needs for developing some of the public utilities, like railways, power, ports and also for the private sector wherever there is need for large foreign exchange assistance.

That makes the position somewhat easier than it was, perhaps, about a month ago, but nonetheless it will need careful watching and careful husbanding of our resources and the tapping of whatever resources we can get from abroad at the appropriate time.

You have mentioned the question of talent going away to low pressure areas. We have recognised the need of giving incentive to talent. As you are all aware—and some of you at the cost of some embarrassment—foreign technicians are allowed to come to this country tax-free for a period upto three years. Perhaps it has been abused in one or two cases. At any rate it makes the position of the technicians, who are here on a permanent basis, somewhat difficult. This concession has been availed of by a number of concerns and that is why these difficulties increase. We are applying our minds to this problem and I hope you will be able to evolve some solution which will be satisfactory to the Associated Chambers.

I am glad, Mr. President, you mentioned this question of the income-tax personnel. I have not been able to give any time so far as this administration goes because I have been preoccupied with other matters, but I agree with you wholeheartedly that in the context of the world in which these people are functioning, not only should their salaries be raised but they should be given a fair amount of protection against what might be called anonymous letters and influence in high quarters, which is not uncommon in any democratic set-up. It is necessary for us to improve both the system and the content of training of these people also, because the problems which I might have to ask this department to shoulder in the future will be many, varied and difficult. Therefore, I greatly appreciate what you have said in this connection and it shall be my endeavour to see that a distinct improvement takes place both in the quality and in remuneration paid to these officers as soon as it is possible for the Government machinery to move in this direction.

Well, Sir, I have been dilating on a number of issues, apart from those you have raised, mainly in connection with one slogan, if I

may call it a slogan, namely, that this plan of ours must succeed and that planned development is possible only if the available resources of the community are fully utilised. I am glad you mentioned this distinction between the public and the private sectors. In fact, I have been feeling, for quite some time, that it is being overdone. It is good of you, Mr. President, to recognise that in a country like this where a large mass of the people belong to the category of "have nots", the tendency (if I may use a strong word) to witch-hunting is difficult to resist. Some of the charges against private enterprise might perhaps be of this category, but nevertheless, I would not admit that the private sector in this country, excepting certain sections, has realised its responsibilities.

At the same time our insistence on the creation of a public sector, at any rate so far as the responsible elements of Government are concerned, is not merely with a view to serving a purely ideological end. The ideological end that we have in our mind can be served even with having a private sector very rigidly controlled.

You have quoted the Prime Minister. He often has said, in spite of the fact that he has never disguised his bias in favour of a growing public sector, that so long as you have a private sector there is no point in putting them in a straight jacket. They must be allowed to function freely, but all that I have said in the present either sector is, or at any rate it ought to be, the same, and they will just to juxtapose these two sectors. The ultimate objective for either sector, is, at any rate it ought to be, the same and they will have, both of them, to justify themselves by the results that they show. They are likely to do this better if, as you have mentioned, one sector supports and supplements the other, one being a check on the other, instead of treating any one sector as burglars or robbers and the other sector as criminals.

But at the same time I would like to emphasise the fact that people like myself, and people of my way of thinking, do not hold that property is sacrosanct. It is certainly a matter of expediency to say that in a country where the mass of the people are poor, property cannot be sacrosanct. But private enterprise and private property will have to stand the test of social utility.

I was rather intrigued to read from a pamphlet put out by the British Labour Party in regard to personal freedom, that this is a problem which faces all of us who really want some measure of equality—some measure of cheer for the under privileged classes.

Therefore, Mr. President, we shall recognise that it may be some of the people of the private sector might have inclinations not

analogous to those of the inclinations of the former criminal tribes, who have ceased to have statutory recognition these days. I do not propose to give statutory recognition to private enterprise as criminal tribes, even in the future, but as I said, I shall have to be a burglar—a good one.

As I said at the outset, I do not propose to cover the whole range of the problems you have referred to. I suppose I have not altogether disappointed you in regard to the expectations that you raised in this audience, by telling them that I might say many things outside what you have yourself said. Inflation, foreign exchange, industrial finance, all these are, in a way, aspects of the same problem—that of marshalling to the fullest advantage the resources available to the community in order to break the stagnation which happens to be several decades old. But, one reference that I would like to make in this connection is the present price trend, to which I made a very brief reference. It is certainly a matter of concern.

We had a meeting of the Chief Ministers of all States for the last two days in Delhi. In fact, both the Prime Minister and I were at pains to indicate to them, that food production is the key to the situation. After all, the price trend, as the commonman understands it, is the price increases in foodgrains and other edible commodities. I am told that the outlook is not bad, though there might be some difficulties immediately. We have seen the figures going up. I think somewhere about the beginning of the fourth week of October it was 420, now it has gone up to about 434. One does not like these indicators, however imperfect they might be, but at the same time, I am not unduly alarmed by the development of this strain in the economy, because the strain tells us what we have to do. If we have been careless before, we have to be a little more careful now, and if we are able to increase agricultural production, I think that is more than three-quarters of the battle won. The foreign exchange position ceases to have that great significance that it would have otherwise, and it merely has to be measured in terms of the foreign exchange content of the import of capital goods that we have to make for the furtherance of the Plan. Mr. President, I would like to tell you that I share with you the sense of urgency in regard to strengthening the improvement of our transport system. I agree that the plans for improving the ports should be carried out at great speed. I am glad that you made references to Vishakhapatnam. I attach a great deal of importance to Vishakhapatnam as a complementary port to Calcutta.

In fact Calcutta cannot develop without Vishakhapatnam developing, because I do not think that Calcutta will be able to take the bigger ships at any time unless the load is decreased. We are also considering the construction of an improved jetty about 30

miles upstream from Calcutta so that the equipment of Durgapur can be unloaded in lighters. Perhaps the pattern that we might set might be used for other purposes as well. It is recognised that the allocation for shipping in the Plan is not adequate. We are striving to raise it. The railways have a very big programme in hand and I have given the railway plan a very high priority. I also agree with you that we should encourage the active development of road transport, which judging from the experience of other countries is to grow even faster than rail transport. In fact, I think it will grow faster than we anticipate even with the difficult conditions under which road transport is now operating

The development of transport facilities of various types raises technical issues and it is proposed to get these issues examined as soon as possible. I mentioned to you that we have been promised assistance in regard to the foreign exchange content of the development programme of these public utilities by the World Bank and we expect one or two technical teams to come and study the position here so as to show the World Bank that these proposals are reasonable and worthy of being financed.

Well, Sir, I have kept this audience longer than I wanted to and I shall therefore bring my remarks to a close. I shall only say once again that this development that we have now initiated, does hold out a great deal of promise and it is a process which is, as you have mentioned, Mr. President, of vital significance to India and I would like to say to the larger world. Because if the Plan fails, it would not be an exaggeration to say that with that, the prospects for democracy in a very large part of the world would, perhaps, get dim What is now needed, therefore, is the organised and cooperative effort of all sections of the community, and, that is why I shall once again, Mr. President, express to you my gratitude for the very encouraging words which you have said, particularly in regard to this Chamber's interest in the Plan. I am sure that if this example of yours is followed by other sections of the business community in this country, I could feel that I could depend on the cooperation of the business community for getting through with this Plan with all the difficulties which now seem visible and others which might be generated in the future and perhaps make it difficult for us to attain the targets that we have envisaged for ourselves. So far as I am concerned, and the Prime Minister who leads the Government and the country are concerned, we are determined, God willing, to go through with the Plan and nothing will stop us.

Mr. President, I am very grateful to you for this very generous gesture which you have shown to me in inviting me once again to be your Chief Guest on this day. I am grateful to you all, ladies and gentlemen, for having tolerated my speaking so long.